

ORIGINAL

NEW APPLICATION

BEFORE THE ARIZONA CORPORATION



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COMMISSIONERS

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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF
SULPHUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC., FOR AN ORDER
APPROVING A COMPREHENSIVE CREDIT
MANAGEMENT PROGRAM AND SUPER-
SEDING AND REPLACING CERTAIN CON-
DITIONS CONTAINED IN DECISION 72237
PERTAINING TO THE REFINANCING OF
SSVEC'S EXISTING AND AUTHORIZED DEBT.

DOCKET NO. E-01575A-12-0457

APPLICATION

(Expedited Action Requested)

I. INTRODUCTION

Pursuant to Arizona Revised Statutes ("A.R.S.") §§ 40-285, 40-301 and 40-302, and Decision 72237 (Docket E-01575A-10-0311) issued by the Arizona Corporation Commission ("Commission"), Sulphur Springs Valley Electric Cooperative ("SSVEC" or the "Cooperative") hereby files this application ("Application") for an order: (i) approving the Cooperative's comprehensive credit management program (the "Comprehensive Credit Management Program" or "CCMP"), as described herein, which will authorize the Cooperative to issue commercial paper ("Commercial Paper") and revenue bonds in addition to borrowing from the National Rural Utilities Cooperative Finance Corporation ("CFC") and CoBank, ACB ("CoBank"), thereby materially lowering its borrowing costs and reducing its interest rate risk; and (ii) superseding and replacing certain conditions contained in Decision 72237, as described herein, which are incompatible with the CCMP. SSVEC notes that it is not seeking authority to incur any additional debt beyond that which has already been approved in prior Commission orders, including Decision 72237. Rather, this Application pertains only to the refinancing of existing debt and the financing (and subsequent refinancing) of new debt authorized in Decision 72237. SSVEC requests that this Application be approved without a hearing by January 31, 2013.

II. BACKGROUND

1. SSVEC is a non-profit member-owned cooperative duly organized under the laws of the State of Arizona in 1938. The Cooperative's principal place of business is 350 North Haskell, Willcox, Arizona 85643. SSVEC is a public service corporation engaged in providing electricity to approximately 51,000 services in parts of Cochise, Graham, Pima and Santa Cruz Counties, including the communities of Sierra Vista, Huachuca City, Patagonia, Elfrida, Benson, St. David, Bowie, San Simon, Willcox, Sonoita and Pearce-Sunsites.

2. As an electric cooperative, SSVEC is different from an investor-owned utility in that it exists solely to provide its members with reliable electricity at the lowest cost of service. In other words, unlike a for-profit investor-owned utility, SSVEC was not formed for the purpose of returning a profit to investors. Additionally, cooperatives like SSVEC are democratic organizations controlled by their member/owners through an elected board of directors. Thus, unlike the customers of a for-profit utility, the member/owners of SSVEC have direct control over the Cooperative through their vote. The Commission has recognized these significant differences between cooperatives and for-profit public service corporations, and has generally permitted a greater degree of self-governance among the cooperatives.

3. In Decision 72237, the Commission approved the application of SSVEC to obtain a credit facility from the National Rural Utilities Cooperative Finance Corporation and/or CoBank, ACB in the total amount of \$78,676,664 (the "Authorized New Debt"), which included \$6 million to be funded through the issuance of Clean Renewable Energy Bonds ("CREBs"). SSVEC was authorized to borrow the Authorized New Debt from either CFC or CoBank, or a combination of the two lenders. However, the respective credit facilities provide that once SSVEC draws money from one lender, the remaining credit under both credit facilities is reduced by the amount of the loan draw so that the maximum loan amount never exceeds the Authorized New Debt.

4. The new loans were needed by SSVEC to fund the upgrade and replacement of existing utility plant and construction of supplemental facilities, as described in Docket E-01575A-10-0311. The \$6 million in CREBs were authorized to fund construction of a new 750

1 kW solar facility planned for Sonoita, Arizona. As of this filing, SSVEC has issued the \$6
2 million in CREBs but has not drawn any of the remaining \$72,676,664 of Authorized New Debt,
3 although the Cooperative will soon begin drawing the loan funds.¹

4 5. Decision 72237 also authorized SSVEC to refinance up to \$126,282,240 of its
5 existing debt² (exclusive of the Authorized New Debt) without prior Commission approval,
6 subject to the following conditions (the "Refinancing Conditions"):

- 7 (a) The interest rate of the refinancing will be more favorable than that of the
8 current debt.
- 9 (b) The term of the loan will not be shorter than the remaining term of the loan
10 being refinanced.
- 11 (c) The resulting loan will not be an interest-only loan. Rather, the resulting
12 loan should be an amortizing loan that requires the Cooperative to make
13 periodic principal payments no less frequently than yearly.³

14 6. After the issuance of Decision 72237, SSVEC began the process of refinancing its
15 existing debt, consistent with the Financing Conditions. As a part of that process, SSVEC
16 consulted with a financial advisor to evaluate ways it might materially lower its borrowing costs
17 and reduce its interest rate risk. SSVEC confirmed with its advisor that long-term fixed interest
18 rates for borrowing in the capital markets are materially lower than the long-term fixed interest
19 rates currently available through CFC and CoBank. However, before SSVEC can access the
20 capital markets to take advantage of these lower interest rates, it must obtain an investment grade
21 credit rating from at least one of the credit rating agencies Standard & Poor's, Moody's or Fitch
22 Group. Based upon an initial review with its financial advisor, SSVEC believes that it can obtain
23 an investment grade credit rating which would enable the Cooperative to materially lower its
24 borrowing costs and interest rate risk by accessing the capital markets. With this information,
25 SSVEC management developed the CCMP described herein which was presented to and
26 approved by the Cooperative's board of directors, subject to the approval of the Commission.

26 ¹ Pursuant to Decision 72237, SSVEC must draw the Authorized New Debt by December 31,
27 2016, which is the date that the financing authorization terminates.

28 ² The \$126,282,240 that was approved for refinancing under Decision 72237 represents a large
portion of SSVEC's debt but not the entire amount of the debt.

³ Decision 72237 at page 6, lines 4-9.

1 7. While one of the objectives of Decision 72237 was to allow SSVEC to reduce the
2 borrowing costs of its debt portfolio through prudent refinancing, the Refinancing Conditions
3 adopted by the Commission are too limiting to permit SSVEC to implement the CCMP. For
4 example, Paragraph 20(a) of Decision 72237 permits refinancing if "[t]he interest rate of the
5 refinancing will be more favorable than that of the current debt."⁴ Under the CCMP described
6 herein, SSVEC would refinance existing loans as interest rate locks expire using low-interest
7 short-term Commercial Paper or variable rate loans, and would then issue long-term revenue
8 bonds when the Cooperative has aggregated a sufficient pool of debt. Thus, interest rates would
9 first decrease in the short term and then increase as SSVEC takes advantage of long-term bond
10 rates, which may not be permitted under the literal language of Paragraph 20(a).

11 8. Similarly, Paragraph 20(b) of Decision 72237 permits refinancing if "[t]he term of
12 the loan will not be shorter than the remaining term of the loan being refinanced."⁵ Under the
13 CCMP, SSVEC would refinance existing loans as interest rate locks expire using short-term
14 Commercial Paper or variable rate loans, and would then issue long-term revenue bonds when the
15 Cooperative has aggregated a sufficient pool of debt. SSVEC believes that its proposed
16 refinancings under the CCMP may be inconsistent with Paragraph 20(b) as written.

17 9. Additionally, Decision 72237 authorizes SSVEC to borrow the Authorized New
18 Debt from CFC, CoBank, or a combination of the two lenders. However, the Cooperative is
19 seeking authority in this docket to issue Commercial Paper and revenue bonds to finance the
20 Authorized New Debt, rather than using CFC and/or CoBank, if the interest rates for bonds are
21 lower. If the Cooperative issues Commercial Paper and/or revenue bonds for all or any portion of
22 the Authorized New Debt, it would reduce the borrowing limits under its credit facilities with
23 CFC and CoBank by the amount of the Commercial Paper and/or bonds.

24 10. To better understand how the CCMP will work, it is helpful to understand how
25 SSVEC has managed its borrowing in the past. Typically, when a new construction loan was
26 approved by the Commission, such as the \$78,676,664 approved in Decision 72237, SSVEC has

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28 ⁴ Decision 72237 at page 4, lines 16-17.

⁵ *Id.* at lines 18-19.

1 not drawn the entire loan amount at one time. Rather, SSVEC has drawn the loan in increments
2 as needed to reimburse construction costs in accordance with the construction timeline and work
3 plan. By so doing, SSVEC avoids paying interest on loan funds that are not yet needed. The
4 interest rate and amortization schedule for each loan draw is set at the time of the draw, so the
5 original authorized loan amount is effectively broken into many smaller loans with different
6 interest rates and amortization schedules. Today, SSVEC has nearly 140 loans and CREBs issues
7 to manage in its debt portfolio.

8 11. Historically, SSVEC relied primarily upon CFC as its lender. CFC is a member-
9 owned nonprofit cooperative that provides financing to rural electric cooperatives. CFC was
10 established in 1969 to raise funds from the capital markets to supplement the loan programs for
11 electric cooperatives offered by the U.S. Department of Agriculture's Rural Utilities Service
12 (previously the Rural Electrification Administration). CFC acts as a lender of last resort to the
13 nation's electric cooperatives, and as such, it does not differentiate in setting interest rates
14 between cooperatives with very good credit such as SSVEC and those with lesser credit. As a
15 result, the interest rates offered to cooperatives by CFC are often higher than the rates that would
16 be available in the financial markets to a company with very good credit. In recent years,
17 CoBank has begun offering competing loan products with interest rates that are more attractive
18 than CFC, and SSVEC has relied more heavily on CoBank for its recent borrowings.

19 12. Today, when SSVEC needs to borrow, it evaluates the loan options offered by its
20 two lenders, CFC and CoBank, and then selects the lender with the most competitive interest rate
21 and term (*i.e.*, the lock period). Generally, the longer the lock period, the higher the interest rate
22 on the loan. SSVEC has found that the interest rate that must be paid to lock a loan through the
23 maturity date is very high when compared to the interest rates associated with shorter lock
24 periods. In prudently balancing the desire for low interest rates against interest rate risk, SSVEC
25 has determined through years of experience that a lock period in the range of 3 to 6 years
26 provides the best combination of low interest rates and reasonable interest rate risk, given the
27 lending options that have been available to the Cooperative. In other words, a lock period of 3 to
28 6 years provides SSVEC's member/owners with a relatively low cost of debt without exposing

1 them to unreasonable interest rate risk. Thus, many of SSVEC's interest rate lock periods on its
2 existing loans fall in the range of 3 to 6 years, which means that the Cooperative regularly has
3 loans with expiring interest rate locks.

4 13. As of September 30, 2012, SSVEC had a portfolio of outstanding loans and
5 CREBs totaling \$170,797,344 (the "Existing Debt"). The loans and CREBs with CoBank total
6 \$67,447,647 and the loans and CREBs with CFC total \$103,349,697. A summary of these
7 outstanding loans and their repayment status is attached hereto as Attachment 1. The outstanding
8 debt has a mix of fixed and variable interest rates ranging from 0.40% for certain of the CREBs,
9 to 2.37% for some of the variable rate loans, to as high as 6.75% for some of the CFC loans. The
10 maturities of the various bank loans range from six months to 31 years, and the CREBs have
11 maturity dates of 11 to 22 years.

12 14. In addition to the \$170,797,344 in Existing Debt, SSVEC has a \$16,540,000
13 revolving line of credit with CFC and CoBank with a balance as of September 30, 2012, of
14 \$1,530,000. SSVEC may borrow up to \$16,540,000 from either CFC or CoBank, or a
15 combination of the two banks, but it may not exceed a total of \$16,540,000 between the two
16 banks. The amount of this revolving line of credit is based upon the authorization in A.R.S. §40-
17 302(D) which permits a public service corporation to issue notes not exceeding 7% of total
18 capitalization if operating revenues exceed \$250,000 and the notes are payable at periods of not
19 more than 12 months from the date of issuance. As explained above, SSVEC also has
20 authorization from the Commission to borrow an additional \$72,676,664 pursuant to Decision
21 72237.⁶ The total of the Existing Debt and the Authorized New Debt is \$243,474,008, plus an
22 additional \$1,530,000 outstanding on the \$16,540,000 revolving lines of credit.

23 15. As of September 30, 2012, SSVEC had approximately \$26,524,770 in variable rate
24 loans and an additional \$108,364,235 in loans that will reprice between now and July 2019 as the
25 interest rate locks expire on those loans. With interest rates at historic lows, SSVEC has a unique
26 opportunity to refinance this debt at very low long-term fixed rates. SSVEC and its financial

27 ⁶ SSVEC received approval in Decision 72237 to borrow \$78,676,664 which included \$6 million
28 in CREBs. The \$6 million in CREBs has been issued and is included in the \$170,797,344 of
Existing Debt.

1 advisor believe that the Cooperative has the requisite credit strength and financial wherewithal to
2 obtain an investment grade credit rating which would allow the Cooperative to access the capital
3 markets to borrow money at lower interest rates with a 30-year fixed rate. Recently, cooperatives
4 with the requisite credit strength have begun to look to the capital markets as a way to reduce
5 interest expense and interest rate risk. One such example is Guadalupe Valley Electric
6 Cooperative, Inc. ("GVEC"), a rural Texas cooperative which serves approximately 69,000
7 customers. As of December 31, 2011, GVEC reported in its financial statements that it had
8 outstanding bonds totaling \$74,380,000 and Commercial Paper totaling \$5 million,⁷ with a board-
9 authorized Commercial Paper program of \$50 million.⁸ GVEC recently issued \$40 million in
10 bonds at a fixed interest rate of 3.77% for 30 years which will reportedly save the cooperative
11 \$3,320,561 in interest expense over the life of the bonds based upon a comparable loan at 4.35%
12 with CoBank.⁹ Clearly, access to the capital markets provides cooperatives with an attractive
13 alternative to CFC and CoBank.

14 16. SSVEC's current practice of borrowing from CFC and CoBank in a series of
15 separate draws has resulted in a large number of smaller loans with higher interest rates than
16 those that are currently available in the capital markets. Institutional investors are not interested
17 in refinancing small individual loans of the type that are included in SSVEC's current debt
18 portfolio. However, if SSVEC can obtain an investment grade credit rating and then begin
19 aggregating its existing loans into pools of \$40-60 million each as interest rate locks expire, or as
20 the Cooperative taps the Authorized New Debt for new construction, then it can attract
21 institutional investors for such pools, thereby materially lowering the Cooperative's borrowing
22 costs and virtually eliminating interest rate risk by locking in interest rates for 30 years. Of
23 course, SSVEC would still want the ability to utilize CFC and CoBank for future refinancings if
24 those banks can offer loan products that are more competitive than bonds. SSVEC will keep the
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26 ⁷ http://www.gvec.org/documents/2011BalanceSheet_Web.pdf.

27 ⁸ Global Credit Portal, Guadalupe Valley Electric Cooperative Inc., Texas; Rural Electric Coop
(December 1, 2011).

28 ⁹ Division Operating Report, Guadalupe Valley Electric Cooperative, December 2011.

1 Commission informed of its efforts to obtain an investment grade credit rating with periodic
2 status filings in this docket.

3 17. With this Application, SSVEC seeks approval of its Comprehensive Credit
4 Management Program, and where the Refinancing Conditions of Decision 72237 are inconsistent
5 with the CCMP, the Cooperative seeks an order of the Commission superseding and replacing
6 such inconsistent Refinancing Conditions. Specifically, SSVEC seeks authority to refinance all
7 or any part of its Existing Debt (\$170,797,344) and to finance and refinance all or any part of the
8 Authorized New Debt (\$78,676,664) by issuing revenue bonds in the capital markets. The
9 refinancing authority approved in Decision 72237 was limited to the refinancing of only
10 \$126,282,240 of existing debt, so SSVEC seeks authority to apply the CCMP to all of its
11 \$243,474,008 of combined Existing Debt and Authorized New Debt. In addition, SSVEC
12 requests that the Commission approve the CCMP for any new Cooperative debt that may be
13 authorized by a future order of the Commission. SSVEC further requests authority to pledge,
14 mortgage, lien, indenture and/or encumber any of the Cooperative's assets in connection with the
15 refinancing and financing of debt under the CCMP, and to engage in any transactions and execute
16 any documents necessary to effectuate the authorizations granted by the Commission in this
17 docket.

18 18. As an integral part of its CCMP, SSVEC requests authority to issue Commercial
19 Paper in an amount not to exceed \$40 million at any one time to allow the Cooperative to
20 aggregate smaller loans into a pool suitable for a bond issue. Unless the Cooperative can
21 aggregate its existing portfolio of smaller loans into a larger pool, it cannot create a bond issue of
22 sufficient size to justify the transactional costs and attract interest in the capital markets.
23 Commercial Paper is a particularly attractive tool for aggregating loans because interest rates for
24 Commercial Paper are materially lower than interest rates on the variable rate loans that are
25 available through CFC or CoBank, as discussed below.

26 19. Commercial Paper is an unsecured promissory note with a maturity date of 30
27 years but a fixed interest rate term from one to 364 days. While interest rates fluctuate with
28 market conditions, Commercial Paper typically bears a lower interest rate than a revolving line of

1 credit. By way of illustration, Commercial Paper rates are currently less than 0.5% per annum
2 compared to a rate of approximately 2.5% per annum that is being charged on the CoBank
3 revolving line of credit. The Guadalupe Valley Electric Cooperative discussed above used its
4 Commercial Paper program to finance capital investments such as transmission lines for electric
5 system reliability and reported saving almost \$1,403,509 in the 21-month period from March
6 2010 when the program was initiated through December 2011.¹⁰ Similarly, SSVEC believes that
7 it will see substantial savings from its Commercial Paper program.

8 20. Since Commercial Paper is not backed by collateral, only companies with
9 excellent credit ratings from recognized rating agencies will be able to sell their Commercial
10 Paper at a reasonable price. Based upon preliminary discussions with its financial advisor,
11 SSVEC believes that it can obtain the requisite credit rating to enable it to issue Commercial
12 Paper. SSVEC would keep the Commission informed of its efforts to obtain an investment grade
13 credit rating for its Commercial Paper program with periodic status filings in this docket.

14 21. SSVEC's CCMP would work as follows. As shown on the loan summary attached
15 hereto as Attachment 1, SSVEC has \$18,951,178 in loans that will reprice (*i.e.*, the interest rate
16 locks will expire) between now and July 2013. SSVEC has an additional \$26,524,770 in loans on
17 a variable rate. SSVEC would issue Commercial Paper to refinance the \$18,951,178 in loans that
18 reprice between now and July 2013. SSVEC would also issue Commercial Paper to refinance a
19 large portion of the variable rate debt, thereby creating a Commercial Paper pool of
20 approximately \$40 million. SSVEC also anticipates that it will borrow approximately \$10-20
21 million of the Authorized New Debt between now and summer 2013 for new construction
22 approved in Decision 72237. SSVEC would then transact a \$50-60 million bond placement,
23 securing a low 30-year fixed interest rate on the debt, currently estimated at less than 4% based
24 upon the recent experience of GVEC. Proceeds from the bond placement would be used to pay
25 off the \$40 million in Commercial Paper and SSVEC would begin the process again issuing
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28 ¹⁰ Division Operating Report, Guadalupe Valley Electric Cooperative, December 2011.

1 Commercial Paper to refinance a portion of the \$43,577,551 in loans that will reprice between
2 August 2012 and July 2015.¹¹

3 22. SSVEC anticipates a series of bond issues of approximately \$40-60 million each
4 until the Cooperative has refinanced all of its Existing Debt and issued all of the Authorized New
5 Debt. Of course, as set forth above, SSVEC will consider all options at the time of each loan
6 repricing, including borrowing from CFC or CoBank, and will select the interest rates and terms
7 that are most advantageous to the Cooperative.

8 23. As an integral companion to its Commercial Paper program, SSVEC seeks
9 authorization for a credit facility ("Credit Facility") in an amount not to exceed \$40 million. This
10 Credit Facility would not authorize any new borrowing by SSVEC above the currently authorized
11 \$243,474,008, but is necessary to provide a backup credit facility to be used in the unlikely event
12 of a disruption in the Commercial Paper market that prevents the Cooperative from rolling over or
13 renewing its outstanding Commercial Paper. The amount that SSVEC could borrow using either
14 Commercial Paper or the Credit Facility could not exceed \$40 million.

15 24. A representative example from CoBank of the type of Credit Facility that SSVEC
16 would execute is attached hereto as Attachment 2. SSVEC seeks authority to pledge, mortgage,
17 lien, indenture and/or encumber any of the Cooperative's assets in connection with the Credit
18 Facility.

19 25. SSVEC will maintain its revolving lines of credit with CFC and CoBank
20 (currently, \$16,540,000 combined for the two lenders) in an amount not to exceed 7% of the
21 Cooperative's total capitalization pursuant to A.R.S. §40-302(D). Thus, SSVEC further requests
22 that the Commission acknowledge in this docket that it may maintain its revolving line of credit
23 in an amount up to 7% of the Cooperative's total capitalization in addition to its \$40 million
24 Commercial Paper program and companion \$40 million Credit Facility.

25 26. In approving its CCMP, SSVEC further requests that the Commission authorize
26 the Cooperative to periodically refinance the Existing Debt and the Authorized New Debt as often

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¹¹ This example is for illustrative purposes and the actual dollar amounts of specific transactions
28 under the CCMP may not be exactly as shown.

1 as the Cooperative deems necessary or desirable in its reasonable discretion without the filing of
2 additional financing applications or approvals from the Commission. However, SSVEC
3 acknowledges and agrees that the total amount of all debt of the Cooperative (excluding the
4 \$16,540,000 revolving lines of credit from CFC and CoBank but including the \$40 million
5 Commercial Paper program and the companion \$40 million Credit Facility) could not exceed
6 \$243,474,008 without obtaining additional authority from the Commission.

7 27. SSVEC recognizes that the Commission has a legitimate interest in making certain
8 that the Cooperative is prudently managing its borrowing and that it is not exposing its
9 member/owners to unnecessary risk. Thus, to ensure that the Commission has ongoing and
10 current information regarding SSVEC's CCMP, the Cooperative will submit an annual report on
11 April 15 of each year, commencing April 15, 2014, identifying each CFC or CoBank loan that
12 was refinanced during the prior calendar year, the amount of the loan, the interest rate on the
13 refinanced debt, the interest rate lock period, if any, the transactional costs of the refinancing, if
14 any, and such other information as the Commission's Utilities Division director may reasonably
15 request. Additionally, the Cooperative will report any bond issue during the prior calendar year,
16 the amount of the issue, the maturity date of the bonds, the interest rate, the transactional costs of
17 the bond issue, and such other information as the Commission's Utilities Division director may
18 reasonably request. Additionally, SSVEC will summarize and report the totals by month and by
19 interest rate for all Commercial Paper transactions during the prior calendar year, together with
20 such other information as the Utilities Division director may reasonably request. Additionally,
21 SSVEC will report any transactions financed under the Credit Facility during the prior calendar
22 year, the amount financed, the interest rate on the refinanced debt, the interest rate lock period, if
23 any, the transactional costs, if any, and such other information as the Commission's Utilities
24 Division director may reasonably request. This annual report would be submitted to the Utilities
25 Division director at the time that SSVEC submits its annual report to the Utilities Division.

26 28. In addition to filing the annual report of financing transactions discussed above,
27 SSVEC will file with the Commission copies of final reports or updates to reports issued by any
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1 credit rating agencies pertaining to the Cooperative within 30 days of the date of such reports or
2 updates.

3 29. SSVEC will also continue to comply with the ordering paragraph of Decision
4 72237 which requires that the Cooperative file copies of loan documents within 60 days of any
5 financing transactions authorized by the Commission.¹²

6 30. SSVEC has an experienced managerial team and the financial wherewithal to
7 implement and manage the CCMP. Attached hereto as Attachment 3 is a copy of the Audited
8 Financial Statements with Accompanying Information for the Years Ended June 30, 2012 and
9 2011 prepared by Bolinger, Segars, Gilbert & Moss, L.L.P., certified public accountants. Again,
10 SSVEC is not seeking any new borrowing authority with this Application. Rather, this
11 Application pertains solely to the refinancing of Existing Debt and the issuance/refinancing of the
12 Authorized New Debt that was previously approved in Decision 72237. Moreover, implementing
13 the new CCMP will result in lower borrowing costs and reduced interest rate risk, which will
14 improve the Cooperative's financial strength.

15 31. Implementation of the CCMP will enable SSVEC to materially reduce its
16 borrowing costs during this time of unprecedented low interest rates by using the Commercial
17 Paper program to aggregate smaller loans and then issuing revenue bonds in the capital markets.
18 Just as importantly, the CCMP will enable SSVEC during the next seven years to refinance
19 \$26,524,770 in existing loans with a variable interest rate and an additional \$108,364,235 in loans
20 with short-term fixed interest rates at low 30-year fixed interest rates. Additionally, the CCMP
21 will enable SSVEC to significantly reduce the number of outstanding loans which will simplify
22 the management of the Cooperative's debt and decrease the possibility of errors. In combination,
23 these benefits will result in a lower cost of service, greater rate stability and less interest rate risk
24 over time for the member/owners of the Cooperative.

25 32. The refinancing flexibility approved last year in Decision 72237 was undoubtedly
26 intended to allow the member/owners of SSVEC to realize cost-savings through lower borrowing
27 costs over time while still ensuring that the Cooperative prudently manages its debt portfolio and

28 ¹² Decision 72237 at page 6, lines 13-15.

1 risk level. However, the Refinancing Conditions adopted in Decision 72237 are insufficiently
2 broad to permit the CCMP outlined herein. By superseding and replacing the Refinancing
3 Conditions of Decision 72237 to the extent that they conflict with the CCMP as described herein,
4 the Commission will enable SSVEC to access an appropriate range of sound financial tools to
5 prudently manage its debt portfolio, lower its cost of debt for its member/owners, and reduce
6 interest rate risk. For all of the foregoing reasons, SSVEC submits that approval of the CCMP is
7 consistent with sound financial practices and the Cooperative's duties as a public service
8 corporation, and that it is in the public interest.

9 33. On August 22, 2012, SSVEC's Board of Directors approved the filing of this
10 Application with the Commission, and on September 20, 2012, approved the Commercial Paper
11 component of the CCMP with a cap of \$40 million.

12 **III. APPROVAL OF COMPREHENSIVE CREDIT MANAGEMENT PROGRAM**

13 34. In this Application, SSVEC requests that the Commission approve its
14 Comprehensive Credit Management Program as described herein, and to the extent that the
15 Refinancing Conditions of Decision 72237 are inconsistent with the CCMP, SSVEC requests that
16 the Commission issue its order superseding and replacing such inconsistent portions of the
17 Refinancing Conditions. Specifically, the Cooperative requests that the Commission issue its
18 order:

- 19 (a) Authorizing SSVEC to refinance all or any part of its Existing Debt in the
20 amount of \$170,797,344 (i) using loans from CFC and/or CoBank, issuing
21 bonds in the capital markets, issuing Commercial Paper, borrowing under
22 the Credit Facility, using the revolving line of credit, or any combination
23 thereof; (ii) at interest rates which the Cooperative determines in its
24 discretion to be the best available interest rates at the time of the
25 refinancing for the applicable class of debt instrument (*i.e.*, loans, bonds,
26 Commercial Paper, Credit Facility or revolving line of credit); and
27 (iii) with a maturity date (either longer or shorter than the original maturity
28 date) selected in the discretion of the Cooperative.
- (b) Authorizing SSVEC to finance all or any part of the Authorized New Debt
of \$78,676,664, and thereafter to refinance the Authorized New Debt
(i) using loans from CFC and/or CoBank, issuing bonds in the capital
markets, issuing Commercial Paper, borrowing under the Credit Facility,
using the revolving line of credit, or any combination thereof; (ii) at
interest rates which the Cooperative determines in its discretion to be the
best available interest rates at the time of the financing for the applicable
class of debt instrument (*i.e.*, bank loans, bonds, Commercial Paper, Credit

- Facility or revolving line of credit); and (iii) with a maturity date selected in the discretion of the Cooperative. The amount of the credit facilities with CFC and CoBank approved in Decision 72237 shall each be reduced by the amount of any bond issue pertaining to the Authorized New Debt.
- (c) Authorizing the CCMP for any new borrowing by SSVEC subsequently approved by order of the Commission (*i.e.*, borrowing above and beyond the \$243,474,008 currently authorized by the Commission).
- (d) Authorizing SSVEC to issue Commercial Paper and/or borrow under the Credit Facility in a combined amount not to exceed \$40 million, with the condition that the combined balance of all outstanding Cooperative debt, exclusive of the Cooperative's revolving lines of credit with CFC and CoBank, may not exceed \$243,474,008.
- (e) Authorizing SSVEC to refinance all or any portion of the Existing Debt and the Authorized New Debt as frequently as the Cooperative determines in its discretion to be reasonable and prudent in order to manage its cost of debt and interest rate risk, consistent with conditions (a), (b), (c) and (d) above.
- (f) Authorizing SSVEC to maintain its revolving lines of credit with CFC and CoBank (currently, \$16,540,000 combined between the two lenders) in an amount not to exceed 7% of total capitalization, which shall be in addition to the issuance of a combined \$40 million of Commercial Paper or debt under the Credit Facility.
- (g) Authorizing SSVEC to pledge, mortgage, lien, indenture and/or encumber any of the assets of the Cooperative pursuant to A.R.S. §§ 40-285, 40-301 and 40-302 as necessary in order to complete the refinancing of the Existing Debt or the issuance and refinancing of the Authorized New Debt.
- (h) Finding that the granting of the Application is consistent with A.R.S. § 40-301(C), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt as described in the Application is for lawful purposes which are within the corporate powers of SSVEC, are compatible with the public interest, with sound financial practices, and with the proper performance by SSVEC of service as a public service corporation, and will not impair SSVEC's ability to perform that service.
- (i) Finding that the granting of the Application is consistent with A.R.S. § 40-302(A), and specifically, that the refinancing of the Existing Debt and financing and refinancing of the Authorized New Debt as described in the Application is reasonably necessary or appropriate for the purposes described in the Application and that such purposes are not, wholly or in part, reasonably chargeable to operative expenses or to income.
- (j) Authorizing SSVEC to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted by the Commission in this docket.
- (k) Ordering that such portions of the Financing Conditions of Decision 72237 as are inconsistent with the Comprehensive Credit Management Program and/or the approvals granted in this docket are superseded and replaced.

35. As a condition of approval of the CCMP, SSVEC will file an annual report on April 15 of each year, commencing April 15, 2014: (i) identifying each CFC and/or CoBank loan that was refinanced during the prior calendar year, the amount of the loan, the interest rate on the refinanced debt, the lock period on the new loan, if any, the transactional costs, if any, and such other information as the Utilities Division director may reasonably request; (ii) identifying any bond issue during the prior calendar year, including the amount of the issue, the maturity date, the interest rate, the transactional costs of the issue, and such other information as the Utilities Division director may reasonably request; (iii) summarizing and reporting the totals by month and by interest rate for all Commercial Paper transactions during the prior calendar year, together with such other information as the Utilities Division director may reasonably request; and (iv) reporting any transactions financed under the Credit Facility during the prior calendar year, the amount financed, the interest rate on the debt, the lock period, if any, the transactional costs, if any, and such other information as the Utilities Division director may reasonably request. This annual report would be submitted to the Utilities Division director at the time that SSVEC submits its annual report to the Utilities Division.

36. As an additional condition, SSVEC will file with the Commission copies of final reports and updates to reports issued by any credit rating agencies pertaining to the Cooperative within 30 days of the date of such reports or updates.

37. Finally, SSVEC will continue to comply with the ordering paragraph of Decision 72237 which requires that the Cooperative file copies of loan documents within 60 days of any financing transactions authorized by the Commission.

38. SSVEC is not seeking any new borrowing authority with this Application. In the event that it becomes necessary for SSVEC to increase its borrowing to fund new construction, then the Cooperative will file an application with the Commission for new financing authority.

IV. PUBLICATION OF NOTICE

SSVEC will publish notice of this Application in the form attached hereto as Attachment 4. Proof of publication will be filed with the Commission once publication is completed.

1 **V. NOTICE TO SSVEC**

2 Notice is hereby given that SSVEC is represented in this matter by counsel undersigned.
3 All communications and correspondence regarding this Petition should be served on the
4 following:

5 Jeffrey W. Crockett, Esq.
6 BROWNSTEIN HYATT FARBER SCHRECK LLP
7 One East Washington Street, Suite 2400
8 Phoenix, Arizona 85004
9 Phone: 602-382-4062
10 E-Mail: jcrockett@bhfs.com

11 With a copy to:

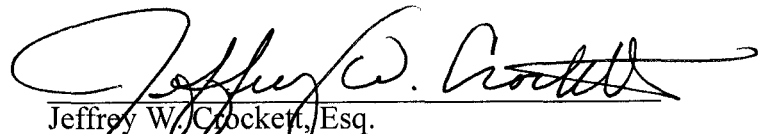
12 Kirby Chapman, Chief Financial and Administrative Officer
13 SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
14 311 East Wilcox
15 Sierra Vista, Arizona 85635
16 Phone: (520) 515-3457
17 E-mail: kchapman@ssvec.com

18 **VI. CONCLUSION**

19 The approval of this Application will allow SSVEC to lower its cost of borrowing and
20 reduce its interest rate risk to the benefit of its member/owners. For all of the reasons set forth
21 herein, SSVEC submits that approving its CCMP and superseding and replacing contradictory
22 portions of the Refinancing Conditions of Decision 72237 is consistent with sound financial
23 practices and the Cooperative's duties as a public service corporation, and that it is in the public
24 interest. SSVEC requests that the Commission approve this Application by January 31, 2013,
25 and that the Application be approved without a hearing.

26 RESPECTFULLY submitted this 6th day of November, 2012.

27 BROWNSTEIN HYATT FARBER SCHRECK LLP

28 

Jeffrey W. Crockett, Esq.
One East Washington Street, Suite 2400
Phoenix, Arizona 85004
Attorneys for Sulphur Springs Valley Electric
Cooperative, Inc.

1 ORIGINAL and thirteen (13) copies filed
2 this 6th day of November, 2012, with:

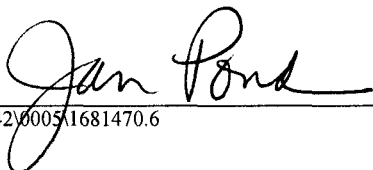
3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 COPY of the foregoing hand-delivered
8 this 6th day of November, 2012, to:

9 Lyn Farmer, Chief Administrative Law Judge
10 Hearing Division
11 ARIZONA CORPORATION COMMISSION
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Janice Alward, Chief Counsel
15 Legal Division
16 ARIZONA CORPORATION COMMISSION
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 Steve Olea, Director
20 Utilities Division
21 ARIZONA CORPORATION COMMISSION
22 1200 West Washington Street
23 Phoenix, Arizona 85007

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26
27
28


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ATTACHMENT 1

**Loan Balances and Rates
at September 30, 2012**

Cobank

Loan	Type	Rate	Outstanding	Maturity	Orig Date	Remarks	REPRICE DATE
192743	LTF	1.599	\$ 3,642,624.86	9/30/2036	5/10/2011	Refinance	5/12/2013
192752	LTF	2.054	\$ 3,670,703.44	12/31/2037	5/10/2011	Refinance	5/12/2014
192768	LTF	3.013	\$ 16,335,547.65	5/20/2041	5/10/2011	Refinance	5/12/2016
192775	LTF	3.399	\$ 5,547,603.63	12/31/2037	5/12/2011	Refinance	5/12/2017
192781	LTF	3.713	\$ 5,074,564.44	12/31/2036	5/12/2011	Refinance	5/12/2018
200038	LTF	2.56	\$ 651,832.75	9/30/2038	10/13/2011	Refinance	10/13/2016
209122	LTV	2.37	\$ 5,320,412.78	12/31/2034	2/24/2012	Refinance	N/A
218634	LTF	1.85	\$ 6,000,000.00	7/20/2034	8/28/2012	CREBS	N/A
219737	LTV	2.37	\$ 617,589.66	5/20/2043	9/17/2012	Refinance	N/A
219752	LTV	2.37	\$ 1,761,940.92	5/20/2043	9/17/2012	Refinance	N/A
219768	LTV	2.37	\$ 1,761,940.92	5/20/2043	9/17/2012	Refinance	N/A
219775	LTV	2.37	\$ 1,761,940.92	5/20/2043	9/17/2012	Refinance	N/A
219781	LTV	2.37	\$ 9,848,082.13	5/20/2043	9/17/2012	Refinance	N/A
219799	LTV	2.37	\$ 5,452,862.90	5/20/2043	9/17/2012	Refinance	N/A

TOTAL COBANK OUTSTANDING \$ 67,447,647.00

CFC

Loan	Type	Rate	Outstanding	Maturity	Orig Date	Purpose	REPRICE DATE
9010001	LTF	6.05%	\$ 36,339.11	4/1/2013	3/1/1978		N/A
9013001	LTF	5.55%	\$ 422,296.20	4/1/2015	3/1/1980		N/A
9017001	LTF	6.05%	\$ 865,678.86	7/1/2019	8/1/1984		1/1/2013
9018001	LTF	5.55%	\$ 1,754,093.83	10/1/2021	9/1/1986		1/1/2015
9019001	LTF	6.05%	\$ 1,444,645.36	4/1/2024	3/1/1989		1/1/2013
9020001	LTF	6.05%	\$ 1,147,685.18	1/1/2027	1/1/1993		1/1/2013
9021001	LTF	6.05%	\$ 1,243,697.04	1/1/2029	1/1/1994		1/1/2013
9022001	LTF	6.05%	\$ 1,278,960.07	3/31/2030	4/1/1995		1/1/2013
9023001	LTF	5.55%	\$ 3,089,324.43	6/30/2033			1/1/2015

9026001	LTF	4.90%	\$	1,715,614.39	3/31/2036	4/1/2002	1/1/2019
9026002	LTF	4.60%	\$	3,413,314.24	3/31/2036	4/1/2003	1/1/2019
9026003	LTF	4.65%	\$	2,150,308.56	3/31/2036	11/1/2003	1/1/2019
9026004	LTF	4.65%	\$	2,150,308.56	3/31/2036	11/1/2003	1/1/2019
9026005	LTF	5.30%	\$	6,398,402.84	3/31/2036	4/1/2004	5/1/2034
9027001	LTF	4.90%	\$	2,416,357.56	3/31/2036	4/1/2002	1/1/2019
9028001	LTF	6.75%	\$	4,217,689.54	12/31/2038	4/1/2004	5/1/2034
9028002	LTF	6.75%	\$	4,217,689.54	12/31/2038	4/1/2004	N/A
9029009	LTF	5.20%	\$	52,515.17	9/30/2012	9/1/2003	N/A
9029010	LTF	5.40%	\$	235,078.74	9/30/2013	9/1/2003	N/A
9029011	LTF	5.45%	\$	397,695.92	9/30/2014	9/1/2003	N/A
9029012	LTF	5.55%	\$	477,875.48	9/30/2015	9/1/2003	N/A
9029013	LTF	5.55%	\$	571,413.85	9/30/2016	9/1/2003	N/A
9029014	LTF	5.60%	\$	618,912.12	9/30/2017	9/1/2003	N/A
9029015	LTF	5.65%	\$	653,405.16	9/30/2018	9/1/2003	N/A
9029016	LTF	5.65%	\$	653,491.59	9/30/2019	9/1/2003	N/A
9029017	LTF	5.65%	\$	653,638.42	9/30/2020	9/1/2003	1/1/2019
9029018	LTF	5.65%	\$	630,321.11	9/30/2021	9/1/2003	1/1/2019
9029019	LTF	5.65%	\$	458,578.24	9/30/2022	9/1/2003	1/1/2019
9029020	LTF	5.65%	\$	501,503.40	9/30/2023	9/1/2003	1/1/2019
9029021	LTF	5.65%	\$	329,083.36	9/30/2024	9/1/2003	1/1/2019
9029022	LTF	5.65%	\$	326,740.15	9/30/2025	9/1/2003	1/1/2019
9029023	LTF	5.65%	\$	338,495.73	9/30/2026	9/1/2003	1/1/2019
9029024	LTF	5.65%	\$	191,361.11	9/30/2027	9/1/2003	1/1/2019
9029025	LTF	5.65%	\$	165,746.64	9/30/2028	9/1/2003	1/1/2019
9030007	LTF	6.70%	\$	1,834,448.26	12/31/2035	6/1/2005	3/1/2014
9030008	LTF	6.70%	\$	1,834,448.26	12/31/2035	6/1/2005	3/1/2014
9030009	LTF	6.70%	\$	1,834,448.26	12/31/2035	6/1/2005	3/1/2014
9030010	LTF	5.55%	\$	1,847,390.02	9/30/2036	2/1/2006	11/1/2014
9030011	LTF	5.55%	\$	923,694.90	9/30/2036	2/1/2006	11/1/2014
9030015	LTF	5.60%	\$	1,856,390.55	12/31/2036	2/1/2006	3/1/2016
9030016	LTF	5.60%	\$	928,195.26	12/31/2036	10/1/2006	3/1/2016
9031001	LTF	N/A	\$	48,332.86	12/1/2023	10/1/2006 CREBS	N/A
9031002	LTF	0.40%	\$	72,580.70	12/1/2023	2/1/2007 CREBS	N/A

9031003	LTF	0.40%	\$	228,628.95	12/1/2023	2/1/2007	CREBS	N/A
9031004	LTF	0.40%	\$	276,408.67	12/1/2023		CREBS	N/A
9033001	LTF	4.20%	\$	1,844,628.67	12/31/2037	3/1/2008		4/1/2013
9033002	LTF	4.20%	\$	1,844,628.67	12/31/2037	3/1/2008		4/1/2013
9033006	LTF	5.45%	\$	3,758,541.03	3/31/2038	6/1/2008		7/1/2013
9033007	LTF	5.45%	\$	1,880,088.71	6/30/2038	6/1/2008		7/1/2013
9033008	LTF	4.60%	\$	2,440,291.02	9/30/2038	9/1/2008		N/A
9033010	LTF	5.05%	\$	1,892,070.22	9/30/2038	12/1/2008		1/1/2014
9033011	LTF	5.05%	\$	1,892,070.22	9/30/2038	12/1/2008		1/1/2014
9033012	LTF	5.05%	\$	946,035.06	9/30/2038	12/1/2008		1/1/2014
9033013	LTF	5.80%	\$	2,864,191.18	12/31/2038	1/1/2009		2/1/2015
9033014	LTF	5.80%	\$	2,864,191.18	12/31/2038	1/1/2009		2/1/2015
9033015	LTF	5.80%	\$	2,864,191.18	12/31/2038	1/1/2009		2/1/2015
9033016	LTF	5.80%	\$	2,864,191.18	12/31/2038	1/1/2009		2/1/2015
9033018	LTF	5.65%	\$	2,874,516.48	6/30/2039	6/1/2009		7/1/2014
9033019	LTF	5.15%	\$	7,727,543.13	12/31/2039	3/1/2010		4/1/2015
9034001	LTF	N/A	\$	32,222.05	12/1/2023		CREBS	N/A
9034002	LTF	0.40%	\$	72,580.70	12/1/2023		CREBS	N/A
9034003	LTF	0.40%	\$	228,628.95	12/1/2023		CREBS	N/A
9034004	LTF	0.40%	\$	76,944.56	12/1/2023		CREBS	N/A
9035001	LTF	N/A	\$	48,332.86	12/1/2023		CREBS	N/A
9035002	LTF	0.40%	\$	72,580.70	12/1/2023		CREBS	N/A
9035003	LTF	0.40%	\$	228,628.95	12/1/2023		CREBS	N/A
9035004	LTF	0.40%	\$	276,408.67	12/1/2023		CREBS	N/A
9036001	LTF	N/A	\$	16,110.62	12/1/2023		CREBS	N/A
9036002	LTF	0.40%	\$	72,580.70	12/1/2023		CREBS	N/A
9036003	LTF	0.40%	\$	114,014.78	12/1/2023		CREBS	N/A
9037001	LTF	N/A	\$	16,110.62	12/1/2023		CREBS	N/A
9037002	LTF	0.40%	\$	72,580.70	12/1/2023		CREBS	N/A
9037003	LTF	0.40%	\$	114,014.78	12/1/2023		CREBS	N/A
9038001	LTF	N/A	\$	16,110.62	12/1/2023		CREBS	N/A
9038002	LTF	0.40%	\$	72,580.70	12/1/2023		CREBS	N/A
9038003	LTF	0.40%	\$	114,014.78	12/1/2023		CREBS	N/A
9039001	LTF	N/A	\$	16,110.52	12/1/2023		CREBS	N/A

9039002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9039003	LTF	0.40%	\$	114,014.78	12/1/2023	CREBS	N/A
9040001	LTF	N/A	\$	48,332.86	12/1/2023	CREBS	N/A
9040002	LTF	0.40%	\$	78,571.46	12/1/2023	CREBS	N/A
9040003	LTF	0.40%	\$	228,628.95	12/1/2023	CREBS	N/A
9040004	LTF	0.40%	\$	268,650.00	12/1/2023	CREBS	N/A
9041001	LTF	N/A	\$	16,110.62	12/1/2023	CREBS	N/A
9041002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9041003	LTF	0.40%	\$	114,014.78	12/1/2023	CREBS	N/A
9042001	LTF	N/A	\$	32,222.05	12/1/2023	CREBS	N/A
9042002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9042003	LTF	0.40%	\$	228,628.95	12/1/2023	CREBS	N/A
9042004	LTF	0.40%	\$	76,944.56	12/1/2023	CREBS	N/A
9043001	LTF	N/A	\$	48,332.86	12/1/2023	CREBS	N/A
9043002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9043003	LTF	0.40%	\$	228,628.95	12/1/2023	CREBS	N/A
9043004	LTF	0.40%	\$	276,408.67	12/1/2023	CREBS	N/A
9044001	LTF	N/A	\$	32,222.05	12/1/2023	CREBS	N/A
9044002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9044003	LTF	0.40%	\$	166,935.44	12/1/2023	CREBS	N/A
9044004	LTF	0.40%	\$	142,892.80	12/1/2023	CREBS	N/A
9045001	LTF	N/A	\$	16,110.62	12/1/2023	CREBS	N/A
9045002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9045003	LTF	0.40%	\$	114,014.78	12/1/2023	CREBS	N/A
9046001	LTF	N/A	\$	144,997.77	12/1/2023	CREBS	N/A
9046002	LTF	0.40%	\$	84,285.64	12/1/2023	CREBS	N/A
9046003	LTF	0.40%	\$	228,628.95	12/1/2023	CREBS	N/A
9046004	LTF	0.40%	\$	970,307.02	12/1/2023	CREBS	N/A
9046005	LTF	0.40%	\$	488,919.86	12/1/2023	CREBS	N/A
9047001	LTF	N/A	\$	16,110.62	12/1/2023	CREBS	N/A
9047002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9047003	LTF	0.40%	\$	114,014.78	12/1/2023	CREBS	N/A
9048001	LTF	N/A	\$	32,222.05	12/1/2023	CREBS	N/A
9048002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A

9048003	LTF	0.40%	\$	228,628.95	12/1/2023	CREBS	N/A
9048004	LTF	0.40%	\$	76,944.56	12/1/2023	CREBS	N/A
9049001	LTF	N/A	\$	16,110.62	12/1/2023	CREBS	N/A
9049002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9049003	LTF	0.40%	\$	114,014.78	12/1/2023	CREBS	N/A
9050001	LTF	N/A	\$	16,110.62	12/1/2023	CREBS	N/A
9050002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9050003	LTF	0.40%	\$	114,014.78	12/1/2023	CREBS	N/A
9051001	LTF	N/A	\$	48,332.86	12/1/2023	CREBS	N/A
9051002	LTF	0.40%	\$	72,580.70	12/1/2023	CREBS	N/A
9051003	LTF	0.40%	\$	228,628.95	12/1/2023	CREBS	N/A
9051004	LTF	0.40%	\$	276,408.67	12/1/2023	CREBS	N/A

TOTAL CFC OUTSTANDING \$ 103,349,696.74

GRAND TOTAL ALL DEBT 9/24/12 \$ 170,797,343.74

Loans Authorized But Not Yet Drawn

	Authorized	Available
CoBank *	72,680,000	72,680,000
CFC *	72,680,000	72,680,000

* Only a total of \$72,680,000 may be borrowed.

Repricing Time Table

Variable Rate - Can be Refinanced at any time	\$ 26,524,770.23
Reprice October 2012 to July 2013	\$ 18,951,178.45
Reprice August 2013 to July 2015	\$ 43,577,551.23
Reprice August 2015 to July 2017	\$ 25,319,569.84
Reprice August 2017 to July 2019	\$ 20,515,935.91
Reprice 2034	\$ 10,616,092.38
Subtotal	\$ 145,505,098.04
Won't Reprice - CREBs or fixed to the end	\$ 25,292,245.70
Total Loans Outstanding	\$ 170,797,343.74
	\$ -

ATTACHMENT 2

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") is entered into as of March 10, 2010, between [REDACTED] corporation (the "Company"), and CoBANK, ACB, a federally chartered instrumentality of the United States ("CoBank").

In consideration of the agreements herein and in the other "Credit Documents" (as hereinafter defined) and in reliance upon the representations and warranties set forth herein and therein, the parties agree as follows:

ARTICLE 1 DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Definitions. Except as otherwise expressly provided in this Agreement, capitalized terms used in this Agreement and defined in Exhibit A hereto shall have the meanings set forth in that Exhibit.

SECTION 1.02. Rules of Interpretation. Except as otherwise expressly provided in this Agreement, the rules of interpretation set forth in Exhibit A hereto shall apply to this Agreement.

ARTICLE 2 AMOUNT AND TERMS OF LOANS

SECTION 2.01. The Commitments. On the terms and conditions set forth in this Agreement:

(A) **Revolving Credit Commitment.** CoBank agrees to make loans (each a "Revolving Credit Loan") to the Company from time to time during the Revolving Credit Availability Period, in an aggregate principal amount not to exceed, at any one time outstanding, \$[REDACTED] (the "Revolving Credit Commitment"). Within the limits and during the term of the Revolving Credit Commitment, the Company may borrow, prepay pursuant to Section 2.07 hereof, and reborrow.

(B) **Term Loan Commitment.** CoBank agrees to make a term loan (the "Term Loan") to the Company on the Revolving Credit Maturity Date in an amount up the unpaid principal balance of the Revolving Credit Loans (the "Term Loan Commitment"). Under the Term Loan Commitment, amounts borrowed and later repaid may not be reborrowed.

SECTION 2.02. Purpose. The purpose of the: (A) Revolving Credit Commitment is to provide a commercial paper backup facility solely in the event of a disruption in the commercial paper market that prohibits the Company from rolling over or renewing its outstanding commercial paper, but not as a result of changes in prices or pricing of commercial paper generally or of the Company in particular; and (B) Term Loan is to provide long-term financing for amounts outstanding under the Revolving Credit Commitment. The Company agrees to use the proceeds of the Revolving Credit Loans and the Term Loan (collectively, the "Loans") for those purposes and no other.

SECTION 2.03. Availability.

(A) **Revolving Credit Loans.** Revolving Credit Loans will be made available and funded on any Business Day upon written request of the Company in the form attached hereto as Exhibit B (each a "Request for Revolving Credit Loan"). Each Request for Revolving Credit Loan must be: (A) duly completed and executed; and (B) received by CoBank not later than 12:00 Noon, Central Time on the date the Revolving Credit Loan is to be made. Revolving Credit Loans will be made available by wire transfer of immediately available funds to such account or accounts as may be authorized by the Company on forms supplied or approved by CoBank. If a Request for Revolving Credit Loan is furnished sufficiently in advance of 11:00 A.M. Mountain time to enable CoBank to act thereon, CoBank agrees to use its best efforts to fund the requested Revolving Credit Loan by 11:00 A.M. Mountain Time; provided, however, that CoBank shall have no liability to the Company if, for any reason, it fails or is unable to fund the Revolving Credit Loan by that time.

(B) **Term Loan.** The Term Loan will be made available on the Revolving Credit Maturity Date upon written request of the Company in the form attached hereto as Exhibit C (the "Request for Term Loan"). The Request for Term Loan must be: (A) duly completed and executed; and (B) received by CoBank not less than two Business Days prior to the Revolving Credit Maturity Date. The Term Loan will be made available by CoBank retaining the proceeds of the Term Loan and applying them against the unpaid principal balance of the Revolving Credit Loans.

SECTION 2.04. Interest.

(A) **Interest Rate Options.** The Company agrees to pay interest on the unpaid principal balance of the Loans in accordance with one or more of the following interest rate options, as selected by the Company in accordance with the terms hereof:

(1) **Weekly Variable Rate Option.** At a rate per annum equal to the rate of interest established by CoBank on the first Business Day of each week (the "Variable Rate Option"). The rate established by CoBank shall be effective until the first Business Day of the next week. Each change in the rate shall be applicable to all balances subject to this option and information about the then current rate shall be made available upon telephonic request.

(2) **Quoted Fixed Rate Option.** At a fixed rate per annum to be quoted by the CoBank in its sole discretion in each instance (the "Quoted Fixed Rate Option"). Under this option, rates may be fixed on such balances and for such periods (each a "Quoted Fixed Rate Period"), as may be agreeable to CoBank in its sole discretion in each instance, provided that: (1) rates on Revolving Credit Loans may not be fixed for Quoted Fixed Rate Periods of less than 30 days or extending beyond the then current Revolving Credit Maturity Date; (2) rates on the Term Loan may not be fixed for Quoted Fixed Rate Periods of less than 180 days or in a manner that is inconsistent with the repayment schedule of the Term Loan; (3) rates may only be fixed on balances of \$500,000.00 or in multiples thereof; and (4) the maximum number of balances that may be subject to this option at any one time shall be ten (10).

(B) **Elections.** Subject to the limitations set forth above, the Company: (1) shall select the applicable rate option(s) in each Request for Loan; (2) may, on any Business Day, elect to convert balances bearing interest at the Variable Rate Option to the Quoted Fixed Rate Option; and (3) may, on the last day of any Quoted Fixed Rate Period, elect to refix the rate under the Quoted Fixed Rate Option or convert the balance to the Variable Rate Option. In the absence of an election provided for herein, the Company shall be deemed to have elected the Variable Rate Option. All elections provided for herein (other than those made in a Request for Loan) may be made telephonically, in writing, or, if agreed to in a separate agreement, electronically, and must be received by 12:00 Noon Company's local

time on the applicable day. Any election made telephonically shall be promptly confirmed in writing if required by CoBank.

(C) **Calculation and Payment.** Interest shall be calculated on the actual number of days each Loan is outstanding on the basis of a year consisting of 360 days. In calculating interest, the date each Loan is made shall be included and the date each Loan is repaid shall, if received before 3:00 P.M. Mountain time, be excluded. Interest shall be calculated: (1) quarterly in arrears on the last day of each March, June, September and December; (2) on the Revolving Credit Maturity Date; and (3) on the Term Loan Maturity Date. Interest shall be due and payable on: (a) the 20th day of each April, July, October, and January; (b) on the Revolving Credit Maturity Date; and (c) on the Term Loan Maturity Date.

SECTION 2.05. Fees. In consideration of the Commitments, the Company agrees to pay to CoBank a facility fee in the amount of [REDACTED]. Such fee shall be due and payable on the date hereof. Fees for any renewal of the Revolving Credit Commitment will be established and agreed upon prior to the date of any renewal thereof; provided, however, that nothing contained herein shall be construed as obligating CoBank to renew the Revolving Credit Commitment.

SECTION 2.06. Repayment. The Company agrees to repay the:

(A) **Revolving Credit Loans.** Revolving Credit Loans in full on the Revolving Credit Maturity Date.

(B) **Term Loan.** Term Loan in five equal consecutive annual installments, each due on the anniversary date of the Revolving Credit Maturity Date, with the first installment due on the first anniversary of the Revolving Credit Maturity Date and the last installment due on the 5th anniversary of the Revolving Credit Maturity Date (the "Term Loan Maturity Date").

SECTION 2.07. Prepayment. Subject to Section 2.11 hereof:

(A) **Voluntary.** The Company shall have the right, upon three Business Days prior notice (which notice shall be irrevocable), to prepay the Loans in whole or part.

(B) **Application.** All prepayments shall be applied to such balances, fixed or variable, as CoBank shall specify and, in the event the Term Loan is prepaid, to principal installments in the inverse order of their maturity.

SECTION 2.08. Notes. The Company's obligation to repay the: (A) Revolving Credit Loans shall be evidenced by a promissory note in substantially the form of Exhibit D hereto, duly completed, dated the date hereof, and in the amount of the Revolving Credit Commitment (the "Revolving Credit Note"); and (B) Term Loan shall be evidenced by a promissory note in substantially the form of Exhibit E hereto, duly completed, dated the date hereof, and in the amount of the Term Loan Commitment (the "Term Loan Note" and, together with the Revolving Credit Note, the "Notes").

SECTION 2.09. Security. The Company's obligations under the Credit Documents shall be secured by a statutory first priority Lien on all equity which the Company may now own or hereafter acquire or be allocated in CoBank and all proceeds thereof. In addition, the Company's obligations under the Term Loan Note and, to the extent related thereto, this Agreement, shall be secured under the Master Indenture equally and ratably with all other Secured Obligations. The Company agrees

to take such steps (including the execution and recording of such instruments and documents) as CoBank may from time to time reasonably require in order to enable the Trustee to obtain, perfect, or realize upon the Lien granted to the Trustee under the Master Indenture.

SECTION 2.10. Payments.

(A) **Manner of Making Payments.** The Company shall make all payments to CoBank under this Agreement and the other Credit Documents by wire transfer of immediately available funds in accordance with the following wire transfer instructions (or in accordance with such other wire transfer instructions as CoBank may direct by notice):

Name of Bank: COBANK
Location: Greenwood Village, CO
ABA No. 307088754
Reference: [REDACTED]

(B) **Business Days.** In the event any day on which any payment required to be made hereunder or under a Note is not a Business Day, then such payment shall be due and payable on the next Business Day and, in the case of principal, interest shall continue to accrue thereon.

(C) **Records.** CoBank shall keep a record of the unpaid principal balance of the Loans, the interest rate elections made with respect thereto, the interest accrued on the Loans, and all payments made with respect to the Loans, and such record shall, absent proof of error, be conclusive evidence of the outstanding principal and interest on the Loans.

SECTION 2.11. Broken Funding Surcharge. In the event the Company: (i) repays any Fixed Rate Balance prior to the last day of the Quoted Fixed Period applicable thereto, whether such payment is made voluntary, by reason of acceleration, or otherwise; or (ii) fails for any reason to borrow, convert to, or renew any Fixed Rate Balance on the date fixed therefor, then the Company shall pay to CoBank a surcharge calculated in accordance with Exhibit F hereto.

SECTION 2.12. Yield Protection. If, on or after the date of this Agreement, the adoption of any Law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of Law), or any change in the interpretation or administration thereof by any governmental or quasi-governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by CoBank with any request or directive (whether or not having the force of Law) of any such authority, central bank or comparable agency (i) subjects CoBank to any Taxes, or (ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, CoBank, and the result of (i) or (ii) is to increase the cost to CoBank of making or maintaining the Loans or its Commitments or to reduce the return received by CoBank in connection with such Loans or Commitments, then, within 15 days of demand by CoBank, the Company shall pay CoBank such additional amount or amounts as will compensate CoBank for such increased cost or reduction in amount received.

SECTION 2.13. Changes in Capital Adequacy Regulations. If CoBank determines the amount of capital required or expected to be maintained by CoBank is increased as a result of a Change (as hereinafter defined), then, within 15 days of demand by CoBank, the Company shall pay CoBank the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased

capital which CoBank determines is attributable to this Agreement, its Loans or its Commitments to make Loans hereunder (after taking into account CoBank's policies as to capital adequacy). "Change" means (i) any change after the date of this Agreement in the "Risk-Based Capital Guidelines" (as hereinafter defined) or (ii) any adoption of or change in any other Law, policy, guideline, interpretation, or directive (whether or not having the force of Law) after the date of this Agreement which affects the amount of capital required or expected to be maintained by CoBank. "Risk-Based Capital Guidelines" means (i) the risk-based capital guidelines in effect in the United States on the date of this Agreement, including transition rules, and (ii) the corresponding capital regulations promulgated by regulatory authorities outside the United States implementing the July 1988 report of the Basle Committee on Banking Regulation and Supervisory Practices Entitled "International Convergence of Capital Measurements and Capital Standards," including transition rules, and any amendments to such regulations adopted prior to the date of this Agreement.

SECTION 2.14. Usury Preemption. Pursuant to the Federal preemption set forth at Section 4.17 of the Farm Credit Act of 1971, codified at 12 U.S.C. §2205, as amended, CoBank is not subject to any interest rate limitation imposed by any State constitution or statute or other laws.

SECTION 2.15. Taxes. (i) All payments by the Company to or for the account of CoBank hereunder or under any Note shall be made free and clear of and without deduction for any and all Taxes. If the Company shall be required by Law to deduct any Taxes from or in respect of any sum payable hereunder or thereunder to CoBank, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) CoBank receives an amount equal to the sum it would have received had no such deductions been made, (b) the Company shall make such deductions and (c) the Company shall pay the full amount deducted to the relevant authority in accordance with applicable Law.

(ii) In addition, the Company hereby agrees to pay any present or future stamp or documentary Taxes and any other excise or property Taxes, charges or similar levies which arise from any payment made hereunder or from the execution or delivery of, or otherwise with respect to, this Agreement ("Other Taxes").

(iii) The Company hereby agrees to indemnify CoBank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 2.15) paid by CoBank and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date CoBank makes demand therefor pursuant to Section 2.16.

SECTION 2.16. Statements: Survival of Indemnity. CoBank shall deliver a written statement as to the amount due, if any, under Sections 2.12, 2.13, or 2.15 hereof. Such written statement shall set forth in reasonable detail the calculations upon which CoBank determined such amount and shall be final, conclusive and binding on the Company in the absence of manifest error. Unless otherwise provided herein, the amount specified in the written statement of CoBank shall be payable on demand after receipt by the Company of such written statement. The obligations of the Company under Sections 2.12, 2.13, and 2.15 shall survive payment of the Obligations and termination of this Agreement.

ARTICLE 3
CONDITIONS PRECEDENT

SECTION 3.01. Conditions Precedent to Initial Revolving Credit Loan. CoBank's obligation to make the initial Revolving Credit Loan to the Company is subject to the conditions precedent that CoBank shall have received each of the following (which, in the case of instruments or documents, must, unless indicated below, be originals and in form and content satisfactory to CoBank):

(A) **The Revolving Credit Note.** The Revolving Credit Note duly executed by the Company.

(B) **Secretary's Certificate.** A certificate of the Secretary of the Company in form and content prescribed by CoBank, attaching and certifying as to each of the following (each of which must be in form and content reasonably acceptable to CoBank): (1) resolutions of the Company's board of directors authorizing the transactions contemplated herein and in the other Credit Documents; (2) a certificate of incumbency showing the names and true ink signatures of the officers of the Company that are authorized to enter into this Agreement and the other Credit Documents; (3) a duly completed and executed copy of a CoBank Delegation and Wire and Electronic Transfer Authorization Form; (4) a copy of the articles of incorporation of the Company, as amended to the date hereof; (5) a copy of the bylaws of the Company, as amended to the date hereof; (6) certificates issued by the Secretary of State and taxing authorities of the State of Texas, issued no more than 90 days preceding the Closing Date, stating that the Company is in good standing in such jurisdiction and that all franchise taxes of the Company due in such state have been paid by the Company; and (7) a compact disk containing a copy of the Master Indenture, as supplemented to date.

(C) **Financial Statements.** Copies of the most recent audited financial statements of the Company, together with unaudited statements through December 31, 2009 (the "Financial Statements")

(D) **Fees and Expenses.** Payment of the fees referred to in Sections 2.05 and 10.04 hereof.

(F) **Opinion of Counsel.** An opinion of counsel to the Company, which, if other than [REDACTED] must be acceptable to CoBank.

(G) **Evidence of Insurance.** Such evidence as CoBank shall require that the Company is in compliance with Section 5.03 hereof.

(H) **Evidence of Regulatory and Other Third Party Approvals.** Such evidence as CoBank may require that all governmental and third party consents and approvals which are necessary for, or required as a condition of, the validity and enforceability of the Credit Documents have been obtained and are in full force and effect.

(I) **Ratings Confirmation.** Copies of written confirmations provided to the Company by each of S&P and Fitch regarding the short term credit rating that will be assigned as of the Closing Date by S&P and Fitch, respectively, to the commercial paper to be issued by the Company.

this will also include Moody's - as applicable

(J) **Officer's Certificate.** A certificate of a Financial Officer of the Company as of the Closing Date in form and content prescribed by CoBank.

(K) **Other Proceedings.** Such other documents, instruments, approvals (and, if requested by CoBank, certified duplicates or executed copies thereof) or opinions as CoBank may reasonably request.

SECTION 3.02. Conditions to Term Loan. CoBank's obligation to make the Term Loan to the Company is subject to the conditions precedent that CoBank shall have received each of the following (which, in the case of instruments or documents, must, unless indicated below, be originals and in form and content satisfactory to CoBank):

(A) **Term Loan Note.** The Term Loan Note, duly executed by the Company and authenticated by the Master Trustee.

(B) **Accrued Interest, Etc.** All interest accrued on the Revolving Credit Loans to the Revolving Credit Maturity Date plus, in the event the amount of the Term Loan is less than the unpaid principal balance of the Revolving Credit Loans, an amount equal to the difference.

(C) **Indenture Documents.** Copies of all instruments and documents furnished to or entered into with the Master Trustee in connection with the Term Loan, which, in the case of the supplement to the Master Indenture required by the Master Indenture (the "Supplemental Indenture"), shall be in the form attached hereto as Exhibit H. *Indenture not necessary can work from Master Loan Agreement*

(D) **Evidence of Recording.** Such evidence as CoBank may reasonably require that: (1) the Master Indenture and the Supplemental Indenture have been recorded with the Secretary of State of the State of Texas; and (2) notices of the filing of same with the Secretary of State have been filed in each county in the State of Texas in which the Company has any property.

(E) **Evidence of Insurance.** Such evidence as CoBank shall require that the Company is in compliance with Section 5.03 hereof.

(F) **Liens.** Such evidence as CoBank may reasonably require that there are no Liens on any property of the Company other than Liens permitted under Section 6.02 hereof.

(G) **Consents and Approvals.** Evidence satisfactory to it that all regulatory and third party consents and approvals which are necessary for, or required as a condition of, the validity and enforceability of the Term Loan, have been obtained and are in full force and effect.

(H) **Opinion.** Such opinion or opinions of counsel to the Company (which, if other than [REDACTED] must be acceptable to CoBank) as CoBank shall reasonably request, including opinions required by the Master Indenture upon the issuance of a Secured Obligation.

SECTION 3.03. Conditions to Each Loan. In addition to the conditions precedent set forth above, CoBank's obligation to make each Loan to the Company is subject to the conditions precedent that: (A) CoBank shall have received a duly completed and executed Request for Loan; (B) each of the representations and warranties set forth herein and in such other Credit Documents be true and correct on the date of such Loan, except to the extent such representations and warranties expressly relates to an earlier date (in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date); and (C) no Default or Event of Default shall have occurred and be continuing.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Each Loan. To induce CoBank to enter into this Agreement and make each Loan hereunder, the Company represents and warrants to CoBank that:

(A) **Existence and Standing.** The Company: (A) is an electric cooperative corporation duly incorporated, validly existing and in good standing under the laws of the State of [REDACTED] and (B) has full power and authority (i) to own its Properties and to carry on its operations as now conducted and as contemplated to be conducted, and (ii) to execute, deliver, perform and secure its Obligations under this Agreement and the Credit Documents to which it is a party. The Company has complied with all provisions of applicable Law in all matters related to such actions of the Company as are described in the Credit Documents and this Agreement.

(B) **Authorization and Validity.** The Company has the power and authority and legal right to execute and deliver the Credit Documents to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery by the Company of the Credit Documents to which it is a party and the performance of its obligations hereunder and thereunder have been duly authorized by proper corporate proceedings, and the Credit Documents to which the Company is a party constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and the application of equitable principles.

(C) **No Conflict; Government Consent.** Neither the execution and delivery by the Company of the Credit Documents to which it is a party, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof will violate (i) any Law, order, writ, judgment, injunction, decree or award binding on the Company, (ii) the Company's articles or certificate of incorporation and by-laws, or (iii) the provisions of the Master Indenture or any other indenture, instrument or agreement to which the Company is a party or is subject, or by which it, or any of its Property, is bound, or conflict with or constitute a default thereunder, or result in, or require, the creation or imposition of any Lien in, of or on the Property of the Company pursuant to the terms of the Master Indenture or any such other indenture, instrument or agreement, other than as contemplated or permitted herein. No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority, or any subdivision thereof, which has not been obtained by the Company, is required to be obtained by the Company in connection with the execution and delivery of the Credit Documents, the borrowings under this Agreement, the payment and performance by the Company of its Obligations or the legality, validity, binding effect or enforceability of any of the Credit Documents.

(D) **Financial Statements.** The Financial Statements heretofore delivered to CoBank were prepared in accordance with GAAP in effect on the date such Financial Statements were prepared, and fairly present the consolidated financial condition and operations of the Company and its consolidated Subsidiaries at such dates, and the consolidated results of its and their operations for the periods then ended.

(E) **Material Adverse Change.** Except as disclosed on Schedule I, since December 31, 2009, there has been no change in the business, Properties, condition (financial or otherwise) or

results of operations of the Company or any of its consolidated Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

(F) **Taxes.** The Company has timely filed any applicable United States federal Tax returns and all other Tax returns which are required to be filed and has paid all Taxes due pursuant to said returns or pursuant to any assessment received by the Company, except such Taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with GAAP and as to which no Lien exists. No tax Liens have been filed and no claims are being asserted with respect to any such Taxes. The charges, accruals and reserves on the books of the Company in respect of any Taxes or other governmental charges are adequate.

(G) **Litigation and Contingent Obligations.** Except as set forth on Schedule 1, there is no litigation, arbitration, governmental investigation or proceeding pending or, to the knowledge of any of its officers, threatened against or affecting the Company or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect or which seeks to prevent, enjoin or delay the making of any Loans. Other than any liability incident to any litigation, arbitration or proceeding which could not reasonably be expected to have a Material Adverse Effect, the Company has no material contingent obligations not provided for or disclosed in the Financial Statements. The Company is not in default with respect to any order of any court, governmental authority, arbitrator or the like.

(H) **Accuracy of Information.** No information, exhibit or report furnished by the Company to CoBank in connection with the negotiation of, or compliance with, the Credit Documents contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading. In addition, all budgets, projections, feasibility studies, and other similar documentation submitted by the Company to CoBank in connection with the transactions contemplated by this Agreement were based upon assumptions that were reasonable and no fact has come to light, and no event has occurred, that would cause any such assumption not to be reasonable.

(I) **[Intentionally Omitted]**

(J) **Material Agreements.** The Company is not a party to any agreement or instrument or subject to any charter or other corporate restriction which could reasonably be expected to have a Material Adverse Effect. The Company is not in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement to which it is a party (including the Master Indenture), which default could reasonably be expected to have a Material Adverse Effect.

(K) **Compliance With Laws.** The Company has complied with all applicable Laws, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof having jurisdiction over the conduct of its business or the ownership of its Property, except for any failure to comply with any of the foregoing which could not reasonably be expected to have a Material Adverse Effect.

(L) **Ownership of Properties; Leases.** On the date of this Agreement, to the best of Company's knowledge, the Company has good and indefeasible title to all of its real and personal properties and tangible assets (other than property as to which the Company is the lessee, and subject to rights of lessees pursuant to leases under which the Company is the lessor and entered into by the Company in the normal course of its business), and all such properties and assets are free and clear of Liens of any nature whatsoever other than Liens permitted by Section 6.02 hereof. To the best of

Company's knowledge, the Company enjoys peaceful and undisturbed possession in all material respects under all material leases as to which it is a lessee and all such leases are valid and subsisting and in full force and effect.

(M) Investment Company Act. The Company is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

(N) Public Utility Holding Company Act. The Company is not a "holding company" or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(O) No Default or Event of Default. The Company is operating its business in compliance with the terms of the Credit Documents, and no Default or Event of Default has occurred or is continuing.

(P) Environment. Except as disclosed on Schedule I, no notice has been received by the Company relating to, and the Company is not aware of any action, proceeding or suit against the Company for, a violation of any Environmental Law which, if adversely determined, could have a Material Adverse Effect. In addition, neither the Company nor any of its Properties is in violation of any Environmental Law (including Environmental Laws relating to releases, discharges, emissions or disposals to air, water, land or ground water, to the withdrawal or use of ground water, to the use, handling or disposal of polychlorinated biphenyls (PCBs), asbestos or urea formaldehyde, to the treatment, storage, disposal or management of hazardous substances (including, without limitation, petroleum, crude oil or any fraction thereof or other hydrocarbons), pollutants or contaminants, to exposure to toxic, hazardous or other controlled, prohibited or regulated substances) which violation could reasonably be expected to have a Material Adverse Effect. The Company does not know of any liability or class of liability of the Company under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.), or the Resource Conservation and Recovery Act of 1976, as amended (42 U.S.C. Section 6901 et seq.).

(Q) Compliance with Other Agreements. The Company is in compliance with the terms and conditions of its other agreements with CoBank (including, without limitation, the obligation to notify CoBank of the commencement of material litigation, of the receipt of environmental and regulatory notices and pleadings, and of other matters as required by such other agreements), and no "Event of Default" (as defined under all existing agreements) or event which, with the giving of notice or the passage of time or both would become an Event of Default under such other agreements, exists

(R) ERISA. Each Plan complies in all material respects with all applicable Laws, and (i) no Reportable Event has occurred and is continuing with respect to any Plan, (ii) the Company has not withdrawn from any Plan or instituted steps to do so, and (iii) no steps have been instituted to terminate any Plan. No condition exists or event or transaction has occurred in connection with any Plan that could result in the incurrence by the Company of any material liability, fine or penalty. No Plan maintained by the Company, nor any trust created thereunder, have incurred any "accumulated funding deficiency" as defined in Section 302 of ERISA nor does the present value of all benefits vested under all Plans exceed, as of the last annual valuation date, the value of the assets of the Plans allocable to such vested benefits. The Company does not have any contingent liability with respect to any post-retirement "welfare benefit plans" (as such term is defined in ERISA) except as has been disclosed to CoBank.

(S) **Franchise, Licenses, Etc** The Company possesses all material franchises, certificates, licenses, permits and other authorizations necessary for the operation of its businesses.

(T) **Subsidiaries.** The Company has no Subsidiaries other than those Subsidiaries shown on Schedule 1 hereof.

(U) **Rates.** The Company's rates have been approved by all necessary corporate action and are not subject to regulation by any Governmental Authority. No action or proceeding is pending or, to the knowledge of the Company, threatened against the Company the objective of which is to cause a reduction in the rates charged by the Company.

SECTION 4.02. Additional Representations and Warranties for Term Loan. In addition to the representations and warranties set forth above, to induce CoBank to make the Term Loan, the Company represents and warrants to CoBank that:

(A) **Security.** The provisions of the Indenture as supplemented by the Supplemental Indenture (collectively, the "Security Documents") are effective to create in favor of the Trustee, for the equal and ratable benefit of CoBank and the holders of the Secured Obligations (as defined in the Indenture), a legal, valid and enforceable Lien on all right, title and interest of the Company in the Trust Estate, and such interest in the Trust Estate constitutes a valid, fully perfected and continuing first priority Lien on all right, title and interest of the Company in the Trust Estate (subject to "Permitted Encumbrances" (as defined in the Master Indenture)).

(B) **Competing Liens.** As to the Trust Estate, the Company has not caused any Liens to be recorded contrary to the terms of the Indenture, or signed any security agreement or filed or permitted to be filed any financing statement with respect to any assets owned by it that are part of the Trust Estate, other than the Indenture and other security agreements and financing statements allowed by the terms of the Indenture, or running in favor of the holders of the Trustee.

ARTICLE 5 AFFIRMATIVE COVENANTS

Unless otherwise agreed to in writing by CoBank, while this Agreement is in effect, the Company agrees to:

SECTION 5.01. Corporate Existence, Etc. Preserve and keep in full force and effect its existence and good standing in the jurisdiction of its incorporation or formation, qualify and remain qualified to transact business in all jurisdictions where such qualification is required, and obtain and maintain all licenses, certificates, permits, authorizations, approvals, and the like which are material to the conduct of its business or required by Law.

SECTION 5.02. Compliance With Laws. Comply in all material respects with all applicable Laws, including, without limitation, all Environmental Laws. In addition, the Company agrees to cause all persons occupying or present on any of its properties to comply in all material respects with all Laws relating to such properties.

SECTION 5.03. Insurance. Maintain insurance with insurance companies or associations acceptable to CoBank in such amounts and covering such risks as are usually carried by companies engaged in the same business and similarly situated. Notwithstanding the foregoing, the

Company agrees to obtain and maintain such flood insurance as CoBank may reasonably require on property located in a flood zone. At CoBank's request, the Company agrees to deliver to CoBank such proof of compliance with this Subsection as CoBank may require.

SECTION 5.04. Property Maintenance. Maintain all of its property that is necessary to or useful in the proper conduct of its business in good repair, working order, and condition, ordinary wear and tear excepted, and make all alterations, replacements, and improvements thereto as may from time to time be necessary in order to ensure that its Properties remain in good working order and condition.

SECTION 5.05. Books and Records. Keep adequate records and books of account in which complete entries will be made in accordance with GAAP consistently applied.

SECTION 5.06. Inspection. Permit CoBank or its agents, upon reasonable notice and during normal business hours or at such other times as the parties may agree, to examine its Properties, books and records, and to discuss its affairs, finances and accounts with its officers, directors, employees, and independent certified public accountants.

SECTION 5.07. Reports and Notices. Furnish to CoBank:

(A) **Annual Financial Statements.** As soon as available, but in no event more than 120 days after the end of each fiscal year of the Company occurring during the term hereof, annual consolidated and consolidating financial statements of the Company and its consolidated Subsidiaries, if any, prepared in accordance with GAAP consistently applied. Such financial statements shall: (a) be audited by independent certified public accountants selected by the Company and reasonably acceptable to CoBank; (b) be accompanied by: (i) an report of such accountants containing an unqualified opinion to the effect that the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied and present fairly the financial condition of the Company and its consolidated Subsidiaries as of the end of such fiscal year and the results of its and their operations for the fiscal year then ended; and (ii) a written statement from such accountants that their examination in connection with such financial statements has been made in accordance with generally accepted auditing standards and auditing procedures; (c) be prepared in reasonable detail and in comparative form; and (d) include a balance sheet, a statement of income, a statement of retained earnings, a statement of cash flows, and all notes and schedules relating thereto.

(B) **Interim Financial Statements.** As soon as available, but in no event more than 60 days after the end of each fiscal quarter of the Company, an unaudited consolidated balance sheet of the Company and its consolidated Subsidiaries, if any, as of the end of such fiscal quarter, a consolidated statement of income for the Company and its consolidated Subsidiaries, if any, for such period and for the period year-to-date, and such other interim statements as CoBank may specifically request, all prepared in reasonable detail and in comparative form and on a consolidated basis in accordance with GAAP consistently applied and certified by the Chief Financial Officer or an authorized officer or employee of the Company acceptable to CoBank.

(C) **Compliance Certificate.** Promptly after furnishing same to the Trustee, a copy of the Company's annual compliance certificate furnished under Section 4.06 of the Indenture.

(D) **Notice of Default.** Promptly after becoming aware thereof, notice of the occurrence of a Default or Event of Default.

(E) Notice of Litigation, Environmental Matters, Etc. Promptly after becoming aware thereof, notice of: (a) the commencement of any action, suit or proceeding affecting the Company or any Subsidiary before any court, arbitrator or governmental instrumentality which, if adversely decided, could have a Material Adverse Effect; (b) the receipt of any notice, indictment, pleading or other communication: (i) alleging a condition that may require the Company to undertake or to contribute to a clean-up or other response under any Environmental Law, or which seeks penalties, damages, injunctive relief, criminal sanctions or other relief as a result of an alleged violation of any such Law, or which claims personal injury or property damage as a result of environmental factors or conditions; and (ii) which, if true or proven could have a Material Adverse Effect or result in criminal sanctions; and (c) any decision of any regulatory authority or commission which could have a Material Adverse Effect. The Company also agrees to promptly provide a copy of any such notice to the Trustee.

(F) Notice of Certain Events. Notice of each of the following at least 30 days prior thereto: (a) any change in the Company's name or corporate structure; and (b) any change in the principal place of business of the Company or the office where its records concerning its accounts are kept.

(G) SEC and Other Related Reports. Promptly after filing same, copies of all registration and proxy statements and reports that the Company files with the Securities and Exchange Commission or any successor and corresponding Governmental Authority.

(H) ERISA Reportable Events. Within 10 days after the Company becomes aware of the occurrence of any Reportable Event (as defined in Section 4043 of ERISA) with respect to the Company, a statement describing such Reportable Event and the actions proposed to be taken in response to such Reportable Event.

(I) Change In Ratings. Promptly after becoming aware thereof, notice of any change in its credit ratings.

(J) Compliance Certificate. Together with each set of financial statements delivered to CoBank pursuant to Sections 5.07(A) and (B) hereof, a certificate of an officer of the Company acceptable to CoBank in the form attached hereto as Exhibit G.

(K) Other Information. Such other information regarding the condition or operations, financial or otherwise, of the Company as CoBank may from time to time reasonably request, including, but not limited to, copies of all pleadings, notices and communications referred to in Subsection (G)(4) above.

SECTION 5.08. Capital. Acquire voting stock in CoBank in such amounts and at such times as CoBank may from time to time require in accordance with its Bylaws and Capital Plan (as each may be amended from time to time), except that the maximum amount of voting stock that the Company may be required to purchase in connection herewith may not exceed the maximum amount permitted by the Bylaws on the date hereof or at the time any Commitment is renewed or refinanced by CoBank. The rights and obligations of the parties with respect to such voting stock and any patronage or other distributions made by CoBank shall be governed by CoBank's Bylaws and Capital Plan, as each may be amended from time to time.

SECTION 5.09. Payment of Taxes and Other Indebtedness. Pay, settle or discharge (a) all Taxes imposed upon it, or upon its income or profits, or upon any of its Properties, before they shall become delinquent, and (b) all lawful claims (including claims for labor, materials and supplies) which, if unpaid, might give rise to a Lien upon any of its Properties; provided, however, that the Company shall not be required to pay any such Tax or claim which is being contested in good faith by appropriate proceedings and as to which adequate reserves therefore have been established in accordance with GAAP, unless the failure to make any such payment (i) would give rise to an immediate right to foreclose or collect on a Lien securing such amounts or (ii) would have or would reasonably be expected to have a Material Adverse Effect.

SECTION 5.10. Maintain Ability to Issue Secured Obligations. Maintain at all times, the ability to issue Secured Obligations under the Master Indenture in an amount equal to the outstanding principal balance of the Loans.

SECTION 5.11. Additional Security. If an Event of Default occurs, then, without limiting CoBank's other rights and remedies hereunder, the Company agrees, within 20 Business Days of receipt from CoBank of a written request therefor, to promptly: (A) enter into a Supplemental Indenture to the Master Indenture in form and content reasonably acceptable to CoBank, adding all Excepted Property (or such portion thereof as may be acceptable to CoBank) to the Lien of the Indenture; and (B) record such Supplemental Indenture (or other instrument or document required by Law) in all places required by Law in order to accord the Trustee a duly perfected Lien on such added property.

ARTICLE 6 NEGATIVE COVENANTS

Unless otherwise agreed to in writing by CoBank, while this Agreement is in effect, the Company will not:

SECTION 6.01. Other Indebtedness. Create, incur, assume or allow to exist, directly or indirectly, any indebtedness or liability for borrowed money or for the deferred purchase price of property or services (including Capital Leases), except for: (A) debt to CoBank; (B) debt secured under the Indenture; (C) accounts payable to trade creditors; (D) unsecured indebtedness permitted by the Indenture; provided, however, that in no event may the amount of commercial paper exceed, at any one time outstanding, \$[REDACTED]; (E) purchase money indebtedness incurred with respect to non-utility property and secured by a Lien on the property being financed; and (F) Capital Leases in an aggregate amount not to exceed \$[REDACTED] at any one time.

SECTION 6.02. Liens. Create, incur, assume, or allow to exist any Lien (including the Lien of an attachment, judgment, or execution) except for: (A) Liens in favor of CoBank; (B) the Lien of the Indenture; and (C) Liens permitted by the Indenture; provided, however, that the Company will not secure its obligations with respect to commercial paper under the Master Indenture unless the Company's Obligations are secured under the Master Indenture equally and ratably.

SECTION 6.03. Mergers, Acquisitions, Etc. Merge or consolidate with any other entity or acquire all or a material part of the assets of any other person or entity unless: (A) in the case of a merger or consolidation, the Company is the surviving entity; (B) after giving effect to the merger, no Default or Event of Default will exist; and (C) in the case of a merger, consolidation or asset acquisition, the aggregate amount of assets added to the Company does not exceed 15% of the Company's "Net Utility Plant" (as determined in accordance with the system of accounts established by the Federal

Energy Regulatory Commission or such other commission or body as may be agreeable to CoBank) immediately prior to the merger, consolidation or asset acquisition.

SECTION 6.04. Transfer of Assets. Sell, transfer, lease, or otherwise dispose of any of its assets except for the sale, in the ordinary course of business, of assets which are obsolete or worn out or no longer necessary in order for the Company to provide service to customers in its service territory. Notwithstanding the foregoing, unless a Default or Event of Default exists, the Company may sell its interest in any of its subsidiaries other than a subsidiary which is indebted to CoBank.

SECTION 6.05. Distributions. Declare or pay any Distribution if at the time thereof or after giving effect thereto: (A) any Default or Event of Default exists or would exist; or (B) the Company's Equity to Assets Ratio is or would be less than .35 to 1.00.

SECTION 6.06. Loans, Investments and Contingent Liabilities. Make any loan or advance to, or make any investment in, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of, or guaranty, assume or otherwise become obligated or liable with respect to the obligations of, any Person, except: (A) securities or deposits issued, guaranteed or fully insured as to payment by the United States of America or any agency thereof; (B) existing investments in generation and transmission cooperatives and investments in CoBank and other lenders organized on a cooperative basis; (C) existing investments in Guadalupe Valley Development Corporation; and (D) such other loans, guaranties, deposits, advances, investments and obligations as may from time to time be made, purchased or undertaken by the Company; provided, however, that the aggregate cost of such other investments, plus the total unpaid principal amount of such other loans, guaranties, deposits, advances and obligations, shall not at any time exceed 15% of the Company's Net Utility Plant.

SECTION 6.07. Change in Business. Engage or permit any Subsidiary to engage in any business activities or operations substantially different from or unrelated to its and their present business activities or operations, other than broadband over power lines.

SECTION 6.08. Transactions with Affiliates. Enter into any transaction with any Affiliate except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms no less favorable to it than would obtain in a comparable arm's-length transaction with a person or entity that was not an Affiliate.

SECTION 6.09. Amendment or Termination of the Indenture. Notwithstanding anything to the contrary contained in the Master Indenture (including Section 9.01(j) and the PROVIDED, HOWEVER, clause of the Granting Clauses): (1) amend, supplement, modify, waive or terminate any provision of the Master Indenture; or (2) release the Lien of the Master Indenture on the Mortgaged Property described in Granting Clause First.

SECTION 6.10. Maintenance of Credit Rating. Prior to its initial issuance of commercial paper obtain, and thereafter at all times maintain, a commercial paper rating from S&P and Fitch.

ARTICLE 7 FINANCIAL COVENANTS

Unless otherwise agreed to in writing by CoBank, while this Agreement is in effect:

will also
include Moody's -
as applicable

SECTION 7.01. Equity to Total Assets. The Company and its consolidated Subsidiaries, if any, will have at the end of each fiscal quarter of the Company, an Equity to Assets Ratio of not less than [REDACTED] to 1.0.

SECTION 7.02. Debt Service Coverage Ratio. The Company and its consolidated Subsidiaries, if any, will have at the end of each fiscal year of the Company, an average annual Debt Service Coverage Ratio of not less than [REDACTED] to 1. Such ratio shall be determined by averaging the two highest annual Debt Service Coverage Ratios achieved by the Company during the most recent three (3) fiscal years of the Company.

SECTION 7.03. Fiscal Year. The Company will not change its fiscal year.

ARTICLE 8 EVENTS OF DEFAULT

Each of the following shall constitute an "Event of Default" hereunder:

SECTION 8.01. Payment Default. The Company should fail to make any: (A) principal payment to CoBank when due hereunder or under any other Credit Agreement; or (B) interest payment or other payment due hereunder or under another Credit Agreement within five (5) days after the same becomes due.

SECTION 8.02. Representations and Warranties. Any opinion, certificate or like document furnished to CoBank by or on behalf of the Company, or any representation or warranty made by the Company herein or in any other Credit Document, shall prove to have been false or misleading in any material respect on or as of the date furnished or made.

SECTION 8.03. Certain Covenants. The Company should fail to perform or comply with Section 5.07(D) hereof or should the proceeds of any Loan for an unauthorized purpose.

SECTION 8.04. Other Covenants. The Company should fail to perform or comply with any other covenant or agreement contained in this Agreement or any other Credit Document (other than a covenant or agreement addressed in Section 8.03 hereof), and, if such failure can be cured, such failure continues for 30 days after written notice thereof shall have been delivered to the Company by CoBank.

SECTION 8.05. Cross Default. An "Event of Default" (as defined in the Indenture) shall have occurred or the Company should, after any applicable grace period, breach or be in default under the terms of: (A) any other Credit Document; (B) any other loan or credit agreement between the Company and CoBank; or (C) any loan or credit agreement (including a lease) between the Company and any affiliate of CoBank, including Farm Credit Leasing Services Corporation.

SECTION 8.06. Other Indebtedness. The Company should fail to pay when due any indebtedness for borrowed money or any long-term obligation for the deferred purchased price of property (including any Capital Lease but excluding any obligation secured under the Indenture) in an amount in excess of \$[REDACTED] or any other event occurs which, under any agreement or instrument relating to such indebtedness or obligation, has the effect of accelerating or permitting the acceleration of such indebtedness or obligation; provided, however, that during the continuance of any event which, with the giving of notice and/or the passage of time would give rise to the right to accelerate such indebtedness or obligations, a Default shall be deemed to have occurred hereunder.

SECTION 8.07. Judgments. A final, non-appealable judgment, decree, or order for the payment of money shall have been rendered against the Company and either: (1) enforcement proceedings shall have been commenced; or (2) such judgment, decree, or order shall continue unsatisfied and in effect for a period of 30 consecutive days without being vacated, discharged, satisfied, or stayed pending appeal.

SECTION 8.08. Insolvency, Etc. The Company shall: (1) become insolvent or shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or (2) suspend its business operations or a material part thereof or make an assignment for the benefit of creditors; or (3) apply for, consent to, or acquiesce in the appointment of a trustee, receiver, or other custodian for it or any of its property; or (4) have commenced against it any action or proceeding for the appointment of a trustee, receiver, or other custodian and such action or proceeding is not dismissed within 30 days of the date thereof or a trustee, receiver, or other custodian is appointed for all or any part of its property; or (5) receive notice from any regulatory or governmental authority to the effect that such authority intends to replace the management of the Company or assume control over the Company; or (6) commence or have commenced against it any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law of any jurisdiction.

SECTION 8.09. Failure of Indenture. The Indenture shall at any time and for any reason cease to create a first priority Lien on the Trust Estate (subject only to the Liens permitted thereunder) securing equally and ratably all Secured Obligations of the Company, or cease to be in full force and effect, or shall be contested by the Company.

SECTION 8.10. Ownership. The Company shall cease to be a rural electric distribution cooperative owned by its members.

ARTICLE 9 REMEDIES UPON DEFAULT

Upon the occurrence and during the continuance of a Default or Event of Default, CoBank shall have no obligation to extend or continue to extend credit to the Company and may discontinue doing so at any time without prior notice or other limitation. In addition, upon the occurrence and during the continuance of an Event of Default, CoBank may, upon notice to the Company and, if the Term Loan is outstanding, the Trustee:

SECTION 9.01. Acceleration, Etc. Terminate the Commitments and declare the entire unpaid principal balance of the Loans, all accrued interest thereon and all other amounts payable under this Agreement and all other agreements between CoBank and the Company, to be immediately due and payable. Upon such a declaration, the unpaid principal balance of the Loans and all such other amounts shall become immediately due and payable, without protest, presentment, demand, or further notice of any kind, all of which are hereby expressly waived by the Company.

SECTION 9.02. Enforcement. Proceed to protect, exercise, and enforce such rights and remedies as may be provided by agreement or under Law. Each and every one of such rights and remedies shall be cumulative and may be exercised from time to time, and no failure on the part of CoBank to exercise, and no delay in exercising, any right or remedy shall operate as a waiver thereof, and no single or partial exercise of any right or remedy shall preclude any other or future exercise thereof, or the exercise of any other right. Without limiting the foregoing, CoBank may hold and/or set off and apply

against the Company's Obligations to CoBank the proceeds of any equity in CoBank, any cash collateral held by CoBank, or any balances held by CoBank for the Company's account (whether or not such balances are due).

SECTION 9.03. Application of Payments. Apply all payments received by it to the Company's obligations to CoBank in such order and manner as CoBank may elect in its sole discretion.

In addition to the rights and remedies set forth above, upon the occurrence and during the continuance of an Event of Default, the unpaid principal balance of the Loans and, to the extent permitted by Law, all overdue interest, fees, and other amounts owing hereunder, shall, at CoBank's option in each instance (and automatically after maturity, whether as scheduled or as a result of acceleration or otherwise), bear interest at the Default Rate.

ARTICLE 10 MISCELLANEOUS

SECTION 10.01. Complete Agreement, Amendments, Etc THE CREDIT DOCUMENTS ARE INTENDED BY THE PARTIES TO BE A COMPLETE AND FINAL EXPRESSION OF THEIR AGREEMENT. NO AMENDMENT, MODIFICATION, OR WAIVER OF ANY PROVISION OF THIS AGREEMENT OR THE OTHER CREDIT DOCUMENTS, AND NO CONSENT TO ANY DEPARTURE BY THE COMPANY HEREFROM OR THEREFROM, SHALL BE EFFECTIVE UNLESS APPROVED BY COBANK AND CONTAINED IN A WRITING SIGNED BY OR ON BEHALF OF COBANK, AND THEN SUCH WAIVER OR CONSENT SHALL BE EFFECTIVE ONLY IN THE SPECIFIC INSTANCE AND FOR THE SPECIFIC PURPOSE FOR WHICH GIVEN. THIS AGREEMENT TOGETHER WITH THE OTHER CREDIT DOCUMENTS SUPERSEDE ALL PRIOR AGREEMENTS AND UNDERSTANDINGS, ORAL OR WRITTEN, IF ANY, INCLUDING ANY COMMITMENT LETTERS OR CORRESPONDENCE RELATING TO THE CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREIN AND THEREIN.

SECTION 10.02. APPLICABLE LAW. EXCEPT TO THE EXTENT GOVERNED BY FEDERAL LAW, THIS AGREEMENT AND THE OTHER CREDIT DOCUMENTS (OTHER THAN THE MASTER INDENTURE) AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF COLORADO, WITHOUT REFERENCE TO CHOICE OF LAW DOCTRINE. The Company irrevocably consents to the service of process out of any competent court in any action or proceeding with respect to this Agreement by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address for notices pursuant to Section 10.03, such service to become effective 30 days after such mailing. Nothing herein shall affect the right of CoBank to serve process in any other manner permitted by law.

SECTION 10.03. Notices. All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given upon delivery if personally delivered or sent by facsimile or similar transmission, or three (3) days after mailing if sent by express, certified or registered mail, to the parties at the following addresses (or such other address as either party may specify by like notice):

If to CoBank, ACB

5500 South Quebec Street
Greenwood Village, Colorado 80111
Attn: Credit Information Services
Fax No.: (303) 224-4002

If to the Company, as follows:

[REDACTED]
[REDACTED]
[REDACTED]
Fax. No.: [REDACTED]

Any notice required to be given to the Trustee hereunder shall be provided at the address set forth in the Master Indenture.

CoBank shall be entitled to rely and act upon any notices (including notices of borrowing and interest elections) purportedly given by or on behalf of the Company even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Company shall indemnify CoBank from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Company. All telephonic notices to and other communications with CoBank may be recorded by CoBank, and the Company hereby consents to such recording.

SECTION 10.04. Costs, Expenses, and Taxes. To the extent allowed by Law, the Company agrees to pay all reasonable out-of-pocket costs and expenses (including the fees and expenses of counsel retained or employed by CoBank) incurred by CoBank in connection with the origination, administration, collection and enforcement of this Agreement and the other Credit Documents, including any Other Taxes incurred in connection with this Agreement or any other Credit Document or the recording hereof or thereof.

SECTION 10.05. Severability. Any provision of this Agreement or any other Credit Document which is prohibited or unenforceable in any jurisdiction shall be ineffective to the extent of such prohibition or unenforceable without invalidating the remaining provisions hereof or thereof.

SECTION 10.06. Successors and Assigns. This Agreement and the other Credit Documents shall be binding upon and inure to the benefit of the Company and CoBank and their respective successors and assigns, except that the Company may not assign or transfer its rights or obligations under this Agreement or the other Credit Documents without the prior written consent of CoBank. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, purchases or participations and, to the extent expressly contemplated hereby, the Indemnities) any legal or equitable right, remedy or claim under or by reason of this Agreement.

SECTION 10.07. Participations, Etc. From time to time, CoBank may sell to one or more banks, financial institutions or other lenders a participation in one or more of the Loans or other extensions of credit made pursuant to this Agreement. However, no such participation shall relieve CoBank of its Commitments hereunder. In connection with the foregoing, CoBank may disclose information concerning the Company and its Subsidiaries, if any, to any participant or prospective participant, provided that such participant or prospective participant agrees to the confidentiality provisions of Section 10.18 hereof. Patronage distributions in the event of a sale of a participation interest shall be governed by CoBank's Bylaws and Capital Plan (as each may be amended from time to time). A sale of a participation interest may include certain voting rights of the participants regarding the Loans hereunder (including without limitation the administration, servicing and enforcement thereof).

CoBank agrees to give written notification to the Company of any sale of a participation interest. The Company shall not bear any increased costs as a result of the sale by CoBank of a participation, and its shall be sufficient for the Company to provide any notices or certifications, reports, and requests for waivers, amendments, renewals and consents only to CoBank.

SECTION 10.08. Conflict. The Company shall be obligated to comply with the covenants contained in this Agreement notwithstanding any inconsistency between this Agreement and the Master Indenture.

SECTION 10.09. Effectiveness of Facsimile Documents and Signatures. Credit Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be binding on the Company and CoBank. CoBank may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

SECTION 10.10. No Waiver; Remedies Cumulative. No failure or delay on the part of CoBank in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Company and CoBank shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies which CoBank would otherwise have. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of CoBank to any other or further action in any circumstances without notice or demand.

SECTION 10.11. Indemnification. Whether or not the transactions contemplated hereby are consummated, the Company shall indemnify and hold harmless the Indemnitees from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses and disbursements (including all expenses of litigation or preparation therefor whether or not CoBank is a party thereto and Attorney Costs) of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against any such Indemnitee in any way relating to or arising out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Credit Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated thereby or the consummation of the transactions contemplated thereby, (b) the Commitments or any Loan, (c) the direct or indirect application or proposed application of the proceeds of any Loan hereunder; (d) any actual or alleged presence or release of hazardous materials on or from any property currently or formerly owned or operated by the Company or any Subsidiary of the Company, or any liability resulting from any actual or alleged violation of Environmental Laws related in any way to the Company or any Subsidiary of the Company or (e) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of, preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether any Indemnitee is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"), in all cases, whether or not caused by or arising, in whole or in part, out of the negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses or disbursements are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross

negligence or willful misconduct of such Indemnitee. No Indemnitee shall be liable for any indirect or consequential damages relating to this Agreement or any other Credit Document or arising out of its activities in connection herewith or therewith (whether before or after the Closing Date). All amounts due under this Section 10.11 shall be payable within ten Business Days after written notice is provided to the Company demanding payment therefor. The agreements in this Section shall survive the termination of the Commitment and the repayment, satisfaction or discharge of all the other Obligations.

SECTION 10.12. Counterparts. This Agreement may be executed in any number of counterparts, each of which where so executed and delivered shall be an original, but all of which shall constitute one and the same instrument.

SECTION 10.13. Survival of Indemnification and Representations and Warranties indemnification obligations set forth herein and all representations and warranties made herein shall survive the execution and delivery of this Agreement, the making of the Loans, and the repayment of the Loans and other Obligations and the termination of the Commitment hereunder.

SECTION 10.14. Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OF THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY AND THEREBY.

SECTION 10.15. Severability. If any provision of any of the Credit Documents is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

SECTION 10.16. Further Assurances. The Company agrees, upon CoBank's request, to promptly take such actions, as reasonably requested, as are necessary to carry out the intent of this Agreement and the other Credit Documents.

SECTION 10.17. Binding Effect; Continuing Agreement.

(A) This Agreement shall become effective at such time as all of the conditions set forth in Section 3.01 have been satisfied or waived by CoBank and it shall have been executed by the Company and CoBank.

(B) This Agreement shall be a continuing agreement and shall remain in full force and effect until all Loans, interest, fees and other Obligations have been paid in full and the Commitments expire or have been terminated. Upon termination, the Company shall have no further obligations (other than the indemnification provisions that survive) under the Credit Documents; provided that should any payment, in whole or in part, of the Obligations be rescinded or otherwise required to be restored or returned by CoBank, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, then the Credit Documents shall automatically be reinstated and all amounts required to be restored or returned and all costs and expenses incurred by CoBank in connection therewith shall be deemed included as part of the Obligations.

SECTION 10.18. Confidentiality. CoBank agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates'

directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent requested by any regulatory authority; (c) to the extent required by applicable Laws or by any subpoena or similar legal process (provided, in the event of any disclosure pursuant to this clause (c), CoBank shall promptly notify the Company of its disclosure of such Information); (d) to any other party to this Agreement; (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder; (f) subject to an agreement containing provisions substantially the same as those of this Section 10.18, to (i) any Participation Purchaser in, or any prospective Participation Purchaser in, any of CoBank's rights or obligations under this Agreement or (ii) any direct or indirect contractual counterparty or prospective counterparty (or such contractual counterparty's or prospective counterparty's professional advisor) to any credit derivative transaction relating to obligations of the Company; (g) with the consent of the Company; (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 8.18 or (ii) has been available or becomes available to CoBank or any participant on a nonconfidential basis from a source other than the Company; or (i) to the National Association of Insurance Commissioners or any other similar organization or any nationally recognized rating agency that requires access to information about CoBank's or any participant's portfolio in connection with ratings issued with respect to CoBank or its participants. For the purposes of this Section 10.18, "Information" means all information received from the Company relating to the Company or its Subsidiaries or business. Any Person required to maintain the confidentiality of Information as provided in this Section 10.18 shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. Notwithstanding anything herein to the contrary, "Information" shall not include, and CoBank, its participants, and the Company may disclose to any and all Persons, without limitation of any kind, any information with respect to the "tax treatment" and "tax structure" (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to CoBank or the Company relating to such tax treatment and tax structure; provided that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the tax treatment or tax structure of the Loans and transactions contemplated hereby.

SECTION 10.19. USA PATRIOT ACT. CoBank hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Publ. 107 56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow CoBank to identify the Company in accordance with the Act.

(signature page follows)

ATTACHMENT 3

ARIZONA 14 COCHISE

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

WILLCOX, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

ARIZONA 14 COCHISE

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

WILLCOX, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**ARIZONA 14 COCHISE
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
WILLCOX, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

TABLE OF CONTENTS

	<u>Statement Identification</u>	<u>Page No.</u>
Independent Auditors' Report		1
Financial Statements		
Balance Sheet	Exhibit A	2
Statement of Income and Patronage Capital	Exhibit B	3
Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5
Accompanying Information		
Independent Auditors' Report on Information Accompanying the Basic Financial Statements		18
Electric Plant	Schedule 1	19
Accumulated Provision for Depreciation and Amortization	Schedule 2	20
Other Property and Investments	Schedule 3	21
Patronage Capital	Schedule 4	22
CFC and CoBank Mortgage Notes	Schedule 5	23
Administrative and General Expenses	Schedule 6	24
Five Year Comparative Data	Schedule 7	25
Statement of Income and Patronage Capital – Calendar Years 2011 and 2010 – (Unaudited)	Schedule 8	26
Compliance and Internal Control Section		
Letter to Board of Directors Regarding Policies Concerning Audits of CFC Borrowers		27

**ARIZONA 14 COCHISE
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
WILLCOX, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

TABLE OF CONTENTS (continued)

	<u>Statement Identification</u>	<u>Page No.</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>		28
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		30
Federal Financial Assistance Section		
Schedule of Findings and Questioned Costs		32
Schedule of Status of Prior Year Findings		33
Schedule of Expenditure of Federal Awards		34

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

INDEPENDENT AUDITORS' REPORT

Board of Directors
Sulphur Springs Valley Electric Cooperative, Inc.
Willcox, Arizona

We have audited the accompanying balance sheets of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2012 and 2011, and the related statements of income and patronage capital, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012, on our consideration of Sulphur Springs Valley Electric Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Sulphur Springs Valley Electric Cooperative, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

September 12, 2012

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEET
JUNE 30, 2012 AND 2011

ASSETS

	June 30,	
	2012	2011
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 291,420,034	\$ 274,027,052
Construction Work in Progress	18,076,307	20,100,924
	\$ 309,496,341	\$ 294,127,976
Less: Accumulated Provision for Depreciation and Amortization	100,962,907	94,187,638
	\$ 208,533,434	\$ 199,940,338
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Non-Utility Property - Net	\$ 8,386,966	\$ 9,079,615
Investments in Associated Organizations	39,964,970	36,912,525
Other Investments	936,751	829,489
	\$ 49,288,687	\$ 46,821,629
CURRENT ASSETS		
Cash	\$ 434,322	\$ 896,970
Temporary Cash Investments		90,000
Accounts and Notes Receivable (Less allowance for uncollectibles of \$599,013 in 2012 and \$658,552 in 2011)	8,474,829	8,123,389
Underbilled Power Cost	3,304,202	
Materials and Supplies	2,741,700	2,792,527
Other Current and Accrued Assets	2,502,027	1,874,712
	\$ 17,457,080	\$ 13,777,598
DEFERRED CHARGES	\$ 1,686,675	\$ 1,439,722
TOTAL ASSETS	\$ 276,965,876	\$ 261,979,287

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 189,515	\$ 192,260
Patronage Capital	84,164,615	78,410,438
Other Equities (Deficits)	(3,205,765)	(3,762,869)
Other Comprehensive Loss	(122,600)	(131,300)
	\$ 81,025,765	\$ 74,708,529
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 120,825,140	\$ 115,006,809
CoBank Mortgage Notes Less Current Maturities	39,450,394	34,486,889
Notes Payable - Fort Huachuca	1,128,857	1,242,860
	\$ 161,404,391	\$ 150,736,558
OTHER LONG-TERM LIABILITIES		
Deferred Compensation	\$ 741,917	\$ 636,112
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
Post-Retirement Benefits	\$ 873,737	\$ 838,030
CURRENT LIABILITIES		
Notes Payable	\$ 1,425,000	\$ 1,800,000
Current Maturities of Long-Term Debt	5,742,787	5,499,939
Accounts Payable - Purchased Power	5,567,528	5,263,153
Accounts Payable - Other	2,085,643	2,627,029
Overbilled Power Cost		1,850,715
Consumer Deposits	2,836,500	3,507,708
Accrued Taxes	2,814,540	2,426,030
Accrued Interest	1,564,835	127,005
Accrued Payroll	555,042	527,786
Accrued Employee Compensated Absences	2,627,616	2,517,548
Other Current and Accrued Liabilities	159,625	126,256
	\$ 25,379,116	\$ 26,273,169
DEFERRED CREDITS	\$ 7,540,950	\$ 8,786,889
TOTAL EQUITIES AND LIABILITIES	\$ 276,965,876	\$ 261,979,287

See accompanying notes to the financial statements.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	Years Ended June 30,				
	2012		2011		Increase
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	\$ 48,632,443	45.0	\$ 47,574,044	45.4	\$ 1,058,399
Irrigation	16,155,643	15.0	14,325,677	13.7	1,829,966
Commercial and Industrial	33,376,294	30.9	33,826,988	32.3	(450,694)
Public Buildings and Other Authorities	2,475,688	2.3	3,261,710	3.1	(786,022)
Power Cost Adjustments	5,154,917	4.8	3,517,118	3.4	1,637,799
Rent from Electric Property	756,241	0.7	726,930	0.7	29,311
Other Operating Revenues	1,388,987	1.3	1,488,643	1.4	(99,656)
Total Operating Revenues	\$ 107,940,213	100.0	\$ 104,721,110	100.0	\$ 3,219,103
OPERATING EXPENSES					
Purchased Power	\$ 65,559,517	60.7	\$ 62,250,900	59.4	\$ 3,308,617
Transmission	443,236	0.4	489,369	0.5	(46,133)
Distribution - Operation	9,123,391	8.5	8,469,039	8.1	654,352
Distribution - Maintenance	3,130,133	2.9	2,553,020	2.4	577,113
Consumer Accounts	2,913,304	2.7	2,804,550	2.7	108,754
Customer Service and Information	530,085	0.5	479,738	0.5	50,347
Sales Expenses	185,274	0.2	222,893	0.2	(37,619)
Administrative and General	4,951,993	4.6	5,596,302	5.3	(644,309)
Depreciation and Amortization	9,462,769	8.8	9,517,947	9.1	(55,178)
Taxes	943,564	0.9	991,745	0.9	(48,181)
Other Interest	36,687	0.0	153,419	0.1	(116,732)
Other Deductions	310,356	0.3	271,386	0.3	38,970
Total Operating Expenses	\$ 97,590,309	90.5	\$ 93,800,308	89.5	\$ 3,790,001
OPERATING MARGINS - Before Fixed Charges	\$ 10,349,904	9.5	\$ 10,920,802	10.5	\$ (570,898)
FIXED CHARGES					
Interest on Long-Term Debt	7,118,083	6.6	7,342,121	7.0	(224,038)
OPERATING MARGINS - After Fixed Charges	\$ 3,231,821	2.9	\$ 3,578,681	3.5	\$ (346,860)
Capital Credits	3,604,811	3.3	4,093,914	3.9	(489,103)
NET OPERATING MARGINS	\$ 6,836,632	6.2	\$ 7,672,595	7.4	\$ (835,963)
NON-OPERATING MARGINS					
Interest Income and Dividend Income	\$ 336,913	0.3	\$ 255,671	0.2	\$ 81,242
Other Non-Operating Margin (Loss)	(98,848)	(0.1)	213,421	0.2	(312,269)
	\$ 238,065	0.2	\$ 469,092	0.4	\$ (231,027)
NET MARGINS	\$ 7,074,697	6.4	\$ 8,141,687	7.8	\$ (1,066,990)
OTHER COMPREHENSIVE INCOME (LOSS)					
Post-Retirement Benefit Liability Adjustment	(8,700)		(8,700)		
COMPREHENSIVE INCOME	\$ 7,065,997		\$ 8,132,987		
Post-Retirement Benefit Liability Adjustment	8,700		8,700		
PATRONAGE CAPITAL - Beginning of Year	78,410,438		69,301,546		
NONOPERATING MARGINS TRANSFERRED TO PRIOR YEAR DEFICIT	(517,642)		(374,488)		
RECLASSIFY LOSSES TO OTHER EQUITIES			1,793,157		
PATRONAGE CAPITAL RETIRED	(802,878)		(451,464)		
PATRONAGE CAPITAL - End of Year	\$ 84,164,615		\$ 78,410,438		

See accompanying notes to the financial statements.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 7,074,697	\$ 8,141,687
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	11,109,504	11,045,624
Capital Credits - Noncash	(3,124,735)	(4,441,318)
Accrued Post-Retirement Benefits (Net of Other Comprehensive Loss)	79,100	79,100
Deferred Charges	(246,953)	189,366
Deferred Credits	(1,245,939)	(5,981,144)
Accounts Receivable	(351,440)	1,200,768
Underbilled (Overbilled) Power Cost	(5,154,917)	(3,517,118)
Inventories and Other Current Assets	(576,488)	(278,188)
Accounts Payable and Other Accrued Liabilities	1,088,813	2,357,984
Net Cash Provided by Operating Activities	\$ 8,651,642	\$ 8,796,761
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (18,770,482)	\$ (12,463,318)
Plant Removal Costs in Excess of Salvage	(932,118)	(1,164,796)
Other Property and Investments - Net of Noncash Capital Credits	763,482	1,349,584
Net Cash Used in Investing Activities	\$ (18,939,118)	\$ (12,278,530)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Advances (Repayments) on CFC Short-Term Line of Credit	\$ (375,000)	\$ (5,880,000)
Advances from CFC/CoBank	15,537,082	14,980,346
Payments on Long-Term Debt to CFC	(3,583,686)	(4,809,884)
Payments on Long-Term Debt to CoBank	(940,283)	(37,419)
Payments on Notes Payable to Fort Huachuca	(102,432)	(92,036)
Payments on Post-Retirement Benefits	(34,693)	(33,444)
Retirement of Patronage Capital	(802,878)	(451,464)
Other Equities	39,463	19,907
Memberships - Net	(2,745)	(1,630)
Net Cash Provided by Financing Activities	\$ 9,734,828	\$ 3,694,376
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (552,648)	\$ 212,607
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	986,970	774,363
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 434,322	\$ 986,970
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 5,596,082	\$ 7,215,818
Income Taxes	\$ 0	\$ 0

SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION:

The adjustment for the application of Post-Retirement Benefit accounting requirements increased (decreased) the accrued Post-Retirement Benefit liability by (\$8,700) and (\$8,700) and changed equities by the same amount for 2012 and 2011, respectively.

In 2011, the Cooperative paid off \$35,256,178 of CFC loans with new long-term advances from CoBank.

See accompanying notes to the financial statements.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Sulphur Springs Valley Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. The majority of the power delivered at retail is purchased wholesale from Arizona Electric Power Cooperative, Inc., of which the Cooperative is a member. The remainder of the power is purchased wholesale on the market. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities.

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average vintage cost of such property as determined from the continuing property records is credited to electric plant, and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Allowance for Uncollectible Accounts

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Inventories

Materials and supplies inventories are valued at average unit cost.

Electric Revenues

The Cooperative's operating revenues are under the jurisdiction of the Arizona Corporation Commission.

As of June 30, 2012 and 2011, the Cooperative had delivered power for usage which had not yet been billed. It is estimated that this unbilled revenue amounts to \$6,324,556 and \$5,423,232 at June 30, 2012 and 2011, respectively, which is not reflected on the balance sheet.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative's tariffs for electric service include wholesale power cost adjustment clauses under which electric rates charged to customers are adjusted to reflect changes in the cost of power. Annual changes in these amounts appear as over and under billed revenue on the statement of income.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers cash and temporary cash investments to be cash equivalents.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Willcox, Arizona. The service area includes members located in a multi-county area of southeastern Arizona. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative requires a deposit from its members upon connection which is applied to unpaid bills in the event of default. The deposit accrues interest and is returned along with accrued interest after one year of prompt payments. As of June 30, 2012 and 2011, deposits on hand were \$2,836,500 and \$3,507,708, respectively.

Effective October 14, 2008, the Federal Deposit Insurance Corporation (FDIC) passed the temporary asset guarantee program. Under the program, the Cooperative's cash balances are fully insured on non-interest bearing accounts and insured up to \$250,000 on interest bearing accounts. The Cooperative maintains non-interest accounts at FDIC insured institutions.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

Certain amounts in the prior period financial statements have been reclassified in order to conform to current period presentation.

2. Assets Pledged

Substantially all assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank.

-7-
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

3. Electric Plant

The major classes of electric plant are as follows:

	June 30,	
	2012	2011
Intangible Plant	\$	\$ 46,500
Transmission Plant	22,903,129	16,987,415
Distribution Plant	257,489,827	245,011,088
General Plant	38,648,790	35,690,760
Net Aid to Plant Investment - Ft. Huachuca	(27,621,712)	(23,708,711)
Total Electric Plant in Service	\$ 291,420,034	\$ 274,027,052
Construction Work in Progress	18,076,307	20,100,924
Total Electric Plant	\$ 309,496,341	\$ 294,127,976

Provision for depreciation of electric plant is computed using straight-line rates as follows:

Transmission Plant	
Station Equipment	2.75%
Poles, Towers, and Fixtures	2.75%
Overhead Conductors and Devices	2.75%
Distribution Plant	
Station Equipment	3.20%
Poles, Towers, and Fixtures	4.00%
Overhead Conductors and Devices	2.80%
Underground Conduit	2.30%
Underground Conductors and Devices	5.90%
Line Transformers	3.10%
Services	3.60%
Meters	3.40-5.00%
Installations on Consumers' Premises	4.40%
Street Lighting and Signal Systems	4.30%

The Cooperative computes depreciation on transmission and distribution plant by applying the above rates to the individual plant accounts. This is done to provide necessary detail information to the Arizona Corporation Commission.

-8-
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures and Improvements	3.00%
Office Furniture and Fixtures	6.00%
Computer Equipment	12.50% and 16.00%
Transportation Equipment	20.00%
Store Equipment	6.00%
Power Operated Equipment	12.00%
Communication Equipment	6.00%
Miscellaneous Equipment	6.00%
Tools, Shop, and Garage Equipment	6.00%

Depreciation and amortization for the years ended June 30, 2012 and 2011, was \$11,109,504 and \$11,045,624, respectively, of which \$9,462,769 and \$9,517,947 was charged to depreciation and amortization expense, and \$1,646,735 and \$1,527,677 allocated to other accounts.

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following as of June 30, 2012 and 2011:

	June 30,	
	2012	2011
CFC		
Capital Term Certificates	\$ 4,199,445	\$ 4,451,006
Member Capital Securities	2,000,000	2,000,000
Patronage Capital	1,887,644	1,561,685
Membership	1,000	1,000
	<u>\$ 8,088,089</u>	<u>\$ 8,013,691</u>
Arizona Electric Power Cooperative, Inc.		
Patronage Capital	\$ 31,251,930	\$ 28,589,828
Other	624,951	309,006
	<u>\$ 39,964,970</u>	<u>\$ 36,912,525</u>

5. Other Investments

	June 30,	
	2012	2011
Member Loans	\$ 194,834	\$ 193,377
Homestead Funds - At Fair Value	741,917	636,112
	<u>\$ 936,751</u>	<u>\$ 829,489</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

6. Inventories – At Average Cost

Inventories consist of:

	June 30,	
	2012	2011
Materials and Supplies	\$ 2,672,344	\$ 2,727,782
Resale Material	69,356	64,745
	<u>\$ 2,741,700</u>	<u>\$ 2,792,527</u>

7. Deferred Charges

Deferred charges consist of:

	June 30,	
	2012	2011
Work Plan	\$ 168,372	\$ 223,185
Unamortized Bond Expense	675,233	733,947
Clearing - Stores Expense	61,034	146,907
Cluster Study	76,000	
ACC Order	144,437	79,824
CFC Refinance Penalty		100,299
Other Deferred Charges	561,599	155,560
	<u>\$ 1,686,675</u>	<u>\$ 1,439,722</u>

Unamortized bond expense represents a payment to CFC associated with the clean renewable energy bond program in the amount of \$939,444 so that the Cooperative can draw down low interest loan funds in order to pursue energy efficiency projects. The Cooperative is amortizing the initial bond purchase over 16 years. The amount recognized as expense for the years ended 2012 and 2011 is \$58,714 and \$58,714, respectively.

8. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 20.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25.00% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 29.25% of the total assets as of June 30, 2012. Patronage capital totaling \$802,878 and \$451,464 was retired during the years ended June 30, 2012 and 2011, respectively, and was within the guidelines set by CFC for the return of capital.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

9. Patronage Capital

	June 30,	
	2012	2011
Assigned	\$ 87,645,152	\$ 82,907,879
Assignable	10,763,819	9,197,577
	\$ 98,408,971	\$ 92,105,456
Less: Retired	14,244,356	13,695,018
	<u>\$ 84,164,615</u>	<u>\$ 78,410,438</u>

10. Other Equities

	June 30,	
	2012	2011
Capital Gains and Losses	\$ (22,969)	\$ (22,969)
Donated Capital	74,605	35,143
Prior Years Deficits	(3,257,401)	(3,775,043)
	<u>\$ (3,205,765)</u>	<u>\$ (3,762,869)</u>

Non-operating margins will be applied to the prior years deficits until it is fully absorbed.

11. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC and maturing at various times from 2013 to 2042:

	June 30,	
	2012	2011
Fixed Rate Notes:		
2012 - Variable Rate Notes 3.20%	\$ 16,104,998	\$
2012 - Fixed Rate Notes 4.20%-6.75%	101,044,306	
2011 - Fixed Rate Notes 4.15%-7.35%		110,587,350
Clean Renewable Energy Bonds (CREBS) 0.00% to 0.40%	8,704,471	9,461,380
	<u>\$ 125,853,775</u>	<u>\$ 120,048,730</u>
Less: Clean Renewable Energy Bond Deposit	453,220	492,630
Less: Current Maturities	4,575,415	4,549,291
	<u>\$ 120,825,140</u>	<u>\$ 115,006,809</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due quarterly. As of June 30, 2012, annual maturities of long-term debt due CFC for the next five years are as follows:

2013	\$ 4,575,415
2014	4,540,673
2015	4,510,382
2016	4,414,062
2017	4,455,224

In 2008, the Cooperative elected to participate in the Clean Renewable Energy Bond (CREBS) program with CFC. The CREBS program allows the Cooperative to finance funds over 16 years to pursue energy efficiency projects at low interest rates. Currently the Cooperative is using the loan funds to place solar panels on schools in the Cooperative's service area.

12. Mortgage Notes – CoBank

Following is a summary of long-term debt due CoBank and maturing in 2046.

	June 30,	
	2012	2011
Fixed Rate Notes:		
2012 - Interest Rates 1.599% - 3.713%	\$ 40,503,764	\$ 35,335,104
Less: Current Maturities	<u>1,053,370</u>	<u>848,215</u>
	<u>\$ 39,450,394</u>	<u>\$ 34,486,889</u>

Principal and interest installments on the above notes are due monthly. As of June 30, 2012, annual maturities of long-term debt due CoBank for the next five years are as follows:

2013	\$ 1,053,370
2014	1,084,508
2015	1,116,613
2016	1,149,891
2017	1,184,272

The Cooperative has a total of \$72,680,000 of unadvanced loan funds available. Of this amount \$72,680,000 is available for draw from CFC.

13. Notes Payable – Fort Huachuca

In conjunction with the contract to provide distribution maintenance and operation services for Fort Huachuca, the Cooperative agreed to purchase the existing facilities on the Fort. The agreed upon price of \$1,799,830 is being financed by the Fort over 15 years at a fixed interest rate of 10.75%. Monthly payments total \$20,175.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2012, annual maturities of long-term debt due Fort Huachuca for the next five years are as follows:

2013	\$	114,002
2014		126,880
2015		141,213
2016		157,164
2017		174,917

14. Short-Term Borrowing

The Cooperative has a \$8,270,000 and \$7,500,000 line of credit for short-term financing with CFC at an interest rate of 3.20% and 4.95% for the years ended June 30, 2012 and 2011, respectively. The Cooperative had an outstanding amount of \$0 and \$0 under such agreement at June 30, 2012 and 2011, respectively. The Cooperative has a \$8,270,000 and \$7,500,000 line of credit for short-term financing with CoBank at an interest rate of 2.40% and 2.44% for the year ended June 30, 2012 and 2011, respectively. The Cooperative had an outstanding amount of \$1,425,000 and \$1,800,000 under such agreement at June 30, 2012 and 2011, respectively.

15. Deferred Credits

Deferred credits consist of:

	June 30,	
	2012	2011
Consumer Advances for Construction	\$ 848,158	\$ 2,373,204
Undelivered Patronage Capital Refunds	488,541	362,675
Fort Huachuca - Deferred Reimbursements	4,052,396	4,709,000
ACC Mandated Energy Conservation Programs	1,650,289	816,521
Other Deferred Credits	501,566	525,489
	<u>\$ 7,540,950</u>	<u>\$ 8,786,889</u>

Consumer Advances for Construction represents refundable aid to construction on line extensions and subdivision construction contracts. Any amounts remaining after five years are forfeited to the Cooperative and charged against construction work in progress.

Undeliverable Patronage Capital Refunds represents uncashed capital credit checks to members. Periodically, the Cooperative will transfer unclaimed capital credits due to members to the foundation.

ACC Mandated Energy Conservation Programs include Demand Side Management programs as well as other projects designed to use renewable energy such as solar energy. These projects are funded by an ACC approved surcharge on the members bill and the balance represents the unused portion of the amounts collected.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Fort Huachuca – Deferred Reimbursements represents the amount billed per the contract with Fort Huachuca for renewals and replacements, and construction work in progress. These amounts will be recognized as qualifying renewals and replacements and construction work in progress costs as incurred.

16. Pension Benefits

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement & Security program, a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. In this multi-employer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated by individual employer. The Retirement and Security Program has periodically been under moratorium due to the plan reaching full funding limitation. Due to funding limitations imposed by federal law, the plan at times must put a moratorium on contributions. The resulting pension cost to the Cooperative for the years ended June 30, 2012 and 2011, was \$3,240,237 and \$3,175,882, respectively.

The Cooperative is also a participant in the NRECA 401(k) savings plan, a defined contribution plan. The cost to the Cooperative under this plan for the years ended June 30, 2012 and 2011, was \$275,849 and \$281,069, respectively.

17. Other Long-Term Liabilities

The Cooperative has provided a deferred compensation plan for certain employees under benefit programs. The liability resulting from these programs is as follows:

	June 30,	
	2012	2011
Employee Deferred Compensation Program	\$ 741,917	\$ 636,112

18. Post-Retirement Benefits

The Cooperative provides post-retirement benefits for eligible employees through a plan with NRECA.

For any employee that retires after December 31, 2001, the retiree pays the full pre-65 premium and the premium for an individual Medicare Supplement Policy. For employees that retired on or before December 31, 2001, the Cooperative pays \$1,250 per year toward the pre-65 premium.

The weighted-average discount rate used to develop the accumulated post-retirement benefit obligation was 5.75%. The assumed health care cost trend rate is 8.5% in 2010, declining to an ultimate level of 5.00% in 2017.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Amounts recognized in the Cooperative's June 30, 2012 and 2011, financial statements and funded status of the plan is as follows:

	June 30,	
	2012	2011
I) Net Post-Retirement Benefit Cost		
Interest Cost	\$ 38,300	\$ 38,300
Service Cost	32,100	32,100
Amortization of Actuarial Loss	8,700	8,700
	<u>\$ 79,100</u>	<u>\$ 79,100</u>
II) Reconciliation of Funded Status		
APBO	\$ 873,737	\$ 838,030
Fair Value of Plan Assets		
Accumulated Post-Retirement Benefit Obligation in Excess of Plan Assets	<u>\$ 873,737</u>	<u>\$ 838,030</u>
III) Amounts Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost		
Unrecognized Actuarial Loss	\$ (122,600)	\$ (131,300)
Total	<u>\$ (122,600)</u>	<u>\$ (131,300)</u>

The Cooperative has not funded plan assets as of June 30, 2012. The amount of benefits paid for the year ended June 30, 2012 was \$34,693.

Estimated future benefit payments through 2018 are as follows:

2013	\$ 73,900
2014-2018	365,300

19. Litigation and Commitments

The Cooperative is included in civil litigation cases instituted by the Cooperative for the purpose of collecting delinquent accounts receivable from certain members/owners.

During the 2008 fiscal year, the Cooperative negotiated with AEPCO to become a partial requirements customer. This agreement allows the Cooperative to purchase a portion of its power on the market from other power suppliers. The contract is effective through December 31, 2035.

The Cooperative is committed to a contractor to build a solar farm in the amount of \$4,954,570 as of June 30, 2012.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

20. Related Party Transactions

The Cooperative is represented on the Board of Directors of AEPCO and purchases part of its electric power from AEPCO. In addition, the Cooperative is represented on the Board of Directors of Southwest Transmission Cooperative (SWTC) which provides transmission services in the provision of power. Margins earned by AEPCO and SWTC have been allocated to the Cooperative and are reflected under investment in associated organizations on the balance sheet. During the years ended June 30, 2012 and 2011, the Cooperative purchased electric power and transmission services from AEPCO and SWTC totaling \$57,357,273 and \$50,958,448, respectively. Amounts payable to AEPCO and SWTC as of June 30, 2012 and 2011, from the Cooperative amounted to \$5,176,715 and \$4,839,258, respectively. Allocations of patronage capital to the Cooperative from AEPCO and SWTC are reflected as investments in associated organizations on the Cooperative's balance sheet. AEPCO and SWTC allocated capital credits of \$2,662,102 and \$3,348,039 to the Cooperative for the periods ended June 30, 2012 and 2011, respectively.

The Cooperative through common board oversight and management provides various accounting and management support and services to two individual non-profit organizations: Sulphur Springs Valley Electric Cooperative, Inc. Charitable Trust and Sulphur Springs Valley Electric Cooperative Foundation.

Sulphur Springs Valley Electric Cooperative, Inc. Charitable Trust (the Trust) is a non-profit organization, tax exempt under Internal Revenue Code 501(c)3, and organized to provide necessary assistance to individuals, families, organizations and agencies in need, within the Cooperative's service area. Under the Cooperative's Operation Roundup Program, certain members of the Cooperative have elected to have their power bill rounded up to the next whole dollar. All proceeds from this program are transferred to the Trust and represent the main source of income to the Trust.

Sulphur Springs Valley Electric Cooperative Foundation (the Foundation) is a non-profit organization, tax exempt under Internal Revenue Code section 501(c)3, and organized primarily to fund the Washington Youth Tour, Youth Energy Science (YES) Fair, educational scholarships and other qualified programs. The Foundation is primarily funded through retired and unclaimed capital credits of the Cooperative as defined by the by-laws of the Cooperative and the laws of the State of Arizona.

21. Fair Value of Financial Instruments

Statement of Financial Accounting Standards requires disclosure of fair value information about financial instruments. Many of the Cooperative's financial instruments lack an available market as characterized by a normal exchange between a willing buyer and a willing seller. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

The following assumptions were used to estimate fair value of each class of financial instrument for which estimation is practicable.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Patronage Capital from Associated Organization – The right to receive cash is an inherent component of a financial instrument. The Cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations is not considered a financial instrument.

CFC Capital Term Certificates – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period.

Homestead Funds – Fair value is based on market value of the portfolio of investments as of the balance sheet date, and is considered level 1 as defined below.

Cash and Temporary Cash Investments – Carrying value, given the short period to maturity.

Long-Term Debt Variable Rate – Carrying value, since these notes reprice frequently at market rates.

Long-Term Debt Fixed Rate – Estimated by computing the present value by individual note to maturity, using currently quoted or offered rates for similar issues of debt. The year end CFC fixed interest rate for long-term debt available for notes with the same term remaining was used in the calculation for all fixed rate long-term debt. These are the only financial instruments of the Cooperative that have a difference in Fair Value and Carrying Value. The carrying value of the Cooperative's fixed rate debt is \$151,495,401. The estimated fair value was calculated to be \$149,611,803, and is level 2 as defined below.

Fair Value Hierarchy – The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

22. Subsequent Events

The Cooperative's management has evaluated subsequent events through September 12, 2012, the date which the financial statements were available for issue.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

23. Income Taxes

On January 1, 2009, the Cooperative adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other State taxing authority, and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction, and Arizona. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2008, and state taxing authorities for years before 2007.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2011 and 2010, the Cooperative's taxable year end.

ACCOMPANYING INFORMATION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

**INDEPENDENT AUDITORS' REPORT ON INFORMATION
ACCOMPANYING THE BASIC FINANCIAL STATEMENTS**

Our report on our audit of the financial statement of Sulphur Springs Valley Electric Cooperative, Inc., for the years June 30, 2012 and 2011 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of electric plant, accumulated provision for depreciation and amortization, other property and investments, patronage capital, CFC, and cobank mortgage notes, administrative and general expenses, and five year comparative data is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The supplemental information presented on the statement of income and patronage capital for the calendar years 2012 and 2011 which is marked "Unaudited" is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on it.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

September 12, 2012

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 1

ELECTRIC PLANT
FOR THE YEAR ENDED JUNE 30, 2012

	Balance 7/1/2011	Additions and Reclassi- fications	Retirements	Balance 6/30/2012
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Intangible Plant	\$ 46,500	\$ 0	\$ 46,500	\$ 0
Transmission Plant				
Land and Land Rights	\$ 1,051,897	\$	\$	\$ 1,051,897
Station Equipment	1,538,887			1,538,887
Poles, Towers, and Fixtures	3,829,697	227,650	20,018	4,037,329
Overhead Conductors and Devices	10,566,934	5,760,538	52,456	16,275,016
Total	\$ 16,987,415	\$ 5,988,188	\$ 72,474	\$ 22,903,129
Distribution Plant				
Land and Land Rights	\$ 438,068	\$	\$	\$ 438,068
Structures and Improvements	549,466	68,672		618,138
Station Equipment	23,372,685	1,840,667	2,561	25,210,791
Poles, Towers, and Fixtures	47,217,056	4,673,964	1,383,286	50,507,734
Overhead Conductors and Devices	31,517,631	2,881,285	744,824	33,654,092
Underground Conduit	22,751,367	501,345	74,791	23,177,921
Underground Conductors and Devices	37,371,819	1,351,362	155,724	38,567,457
Line Transformers	51,821,524	1,380,542	368,753	52,833,313
Services	9,888,784	1,368	64,450	9,825,702
Meters	14,925,209	454,788	8,779	15,371,218
Installations on Consumers' Premises	1,575,615	1,699,090	32,689	3,242,016
Street Light and Signal Systems	3,581,864	517,762	56,249	4,043,377
Total	\$ 245,011,088	\$ 15,370,845	\$ 2,892,106	\$ 257,489,827
General Plant				
Land and Land Rights	\$ 806,591	\$	\$	\$ 806,591
Structures and Improvements	10,700,072	224,032		10,924,104
Office Furniture and Equipment	4,439,259	182,273	40,356	4,581,176
Transportation Equipment	4,910,614	938,922	239,574	5,609,962
Store Equipment	201,474			201,474
Tools, Shop, and Garage Equipment	1,837,616	85,777	3,049	1,920,344
Laboratory Equipment	878,965			878,965
Power Operated Equipment	10,850,950	1,629,882	108,058	12,372,774
Communication Equipment	914,123	288,181		1,202,304
Miscellaneous Equipment	151,096			151,096
Total	\$ 35,690,760	\$ 3,349,067	\$ 391,037	\$ 38,648,790
Net Aid to Plant Investment - Ft. Huachuca	\$ (23,708,711)	\$ (3,913,001)	\$ 0	\$ (27,621,712)
Total Classified Electric Plant In Service	\$ 274,027,052	\$ 20,795,099	\$ 3,402,117	\$ 291,420,034
Construction Work in Progress	20,100,924	(2,024,617)		18,076,307
Total Utility Plant	\$ 294,127,976	\$ 18,770,482	\$ 3,402,117	\$ 309,496,341

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 2

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION
FOR THE YEAR ENDED JUNE 30, 2012

	Balance 7/1/2011	Depreciation Accruals	Retirements	Balance 6/30/2012
Intangible Plant	\$ 46,500	\$	\$ 46,500	\$ 0
Transmission Plant	\$ 5,769,144	\$ 453,265	\$ 104,009	\$ 6,118,400
Distribution Plant	\$ 70,082,943	\$ 8,341,222	\$ 4,172,168	\$ 74,251,997
General Plant				
Structures and Improvements	\$ 3,962,741	\$ 393,923	\$	\$ 4,356,664
Office Furniture and Equipment	2,717,061	281,214	39,331	2,958,944
Transportation Equipment	3,864,315	466,080	217,262	4,113,133
Store Equipment	158,785	4,638		163,423
Tools, Shop, and Garage Equipment	1,016,217	70,339	2,926	1,083,630
Laboratory Equipment	559,615	31,713		591,328
Power Operated Equipment	6,122,762	1,009,561	101,895	7,030,428
Communications Equipment	644,905	51,639		696,544
Miscellaneous Equipment	76,793	5,910		82,703
Total General Plant	\$ 19,123,194	\$ 2,315,017	\$ 361,414	\$ 21,076,797
Total Classified Electric Plant in Service	\$ 95,021,781	\$ 11,109,504	\$ 4,684,091	\$ 101,447,194
Retirement Work in Progress	(834,143)		(349,856)	(484,287)
Total	\$ 94,187,638	\$ 11,109,504	\$ 4,334,235	\$ 100,962,907

(1)

(2)

(1) Charged to Depreciation and Amortization Expense	\$ 9,462,769
Charged to Clearing and Other Accounts	1,646,735
	<u>\$ 11,109,504</u>

(2) Cost of Units Retired and Sold	\$ 3,402,117
Add: Cost of Removal	1,173,500
Less: Salvage and Other Credits	<u>241,382</u>
Loss Due to Retirement	<u>\$ 4,334,235</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 3

OTHER PROPERTY AND INVESTMENTS
JUNE 30, 2012 AND 2011

	June 30,	
	2012	2011
NON-UTILITY PROPERTY		
Solar Plant (Net of Amortization of \$3,072,902 for 2012 and \$2,380,253 for 2011)	\$ 8,271,937	\$ 8,964,586
Land Held for Future Substation Sites	115,029	115,029
Total Non-Utility Property	<u>\$ 8,386,966</u>	<u>\$ 9,079,615</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships		
National Rural Utilities Cooperative Finance Corporation	\$ 1,000	\$ 1,000
CoBank	1,000	1,000
Other	10	10
Patronage Capital		
National Rural Utilities Cooperative Finance Corporation	1,887,644	1,561,685
Arizona Electric Power Cooperative, Inc.	31,251,930	28,589,828
National Rural Telecommunications Cooperative	41,165	42,193
Federated Rural Electric Insurance Exchange	271,485	247,769
National Information Solutions Cooperative	12,120	5,773
CoBank	82,979	
Cooperative Response Center	12,261	12,261
Other Investments		
National Rural Utilities Cooperative Finance Corporation-Member Capital	2,000,000	2,000,000
Grand Canyon Statewide Building Equity	203,931	
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	4,199,445	4,451,006
Total Investments in Associated Organizations	<u>\$ 39,964,970</u>	<u>\$ 36,912,525</u>
OTHER INVESTMENTS		
Member Loans Receivable	\$ 194,834	\$ 193,377
Homestead Funds	741,917	636,112
Total Other Investments	<u>\$ 936,751</u>	<u>\$ 829,489</u>
Total Other Property and Investments	<u>\$ 49,288,687</u>	<u>\$ 46,821,629</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 4

PATRONAGE CAPITAL

JUNE 30, 2012

Year	Assignable		Assigned		Retired	Balance
	SSVEC	AEPCO	SSVEC	AEPCO		
1960 +	\$	\$	\$ 1,962,967	\$	\$ 1,962,967	\$
1963				20,147	20,147	
1964			38,601	38,390	76,991	
1965			164,927		164,927	
1970			6,888	107,978	114,866	
1971				110,214	110,214	
1972			316,026	131,655	447,681	
1973			552,047	228,668	780,715	
1974			351,822		351,822	
1975			187,983		187,983	
1976			43,754		43,754	
1977			373,156		373,156	
1978			427,875		427,875	
1979			557,380		557,380	
1980			1,861,471		1,861,471	
1981			1,221,186		1,221,186	
1982			631,366		631,366	
1983			396,749		396,749	
1984			534,630		534,630	
1985			542,575		542,575	
1986			913,573		913,573	
1987			717,893		717,882	11
1988			429,716		3,963	425,753
1989			2,097,639		19,483	2,078,156
1990			1,536,891		11,104	1,525,787
1991			1,056,601		9,431	1,047,170
1992			636,830		4,007	632,823
1993			1,747,920		12,219	1,735,701
1994			2,297,104		298,657	1,998,447
1995			1,559,057		202,654	1,356,403
1996			1,514,534		194,492	1,320,042
1997			1,561,900		201,047	1,360,853
1999			2,557,142		6,995	2,550,147
2000			3,262,510		8,298	3,254,212
2001			2,772,943	1,916,729	10,382	4,679,290
2002			2,585,107	2,931,416	552,431	4,964,092
2003			2,383,110	1,303,017	5,522	3,680,605
2004			3,591,169		253,847	3,337,322
2005			4,571,695		3,679	4,568,016
2006			3,384,356		2,350	3,382,006
2007			1,556,559	2,592,402	777	4,148,184
2008			2,448,788	10,617,749	1,784	13,064,753
2009			1,330,143	5,974,971	821	7,304,293
2010	1,859,295		1,733,733	3,253,500	503	6,846,025
2011	7,355,065					7,355,065
2012 (6 months)	1,553,962					1,553,962
Adjustments	(4,503)					(4,503)
	\$ 10,763,819	\$ 0	\$ 58,418,316	\$ 29,226,836	\$ 14,244,356	\$ 84,164,615

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 5

CFC AND CoBANK MORTGAGE NOTES
JUNE 30, 2012

CFC Mortgage Notes

Note Number	Date of Note	Interest Rate	Principal Amount	Amount Unadvanced	Principal Repayments	Net Obligations
9010	03-31-78	6.05%	\$ 644,000	\$	\$ 595,907	\$ 48,093
9013	03-31-80	5.55%	2,171,000		1,713,393	457,607
9016	05-31-82	3.20%	1,988,000		1,312,404	675,596
9017	08-20-84	6.05%	2,104,000		1,213,634	890,366
9018	09-30-86	5.55%	3,520,833		1,730,643	1,790,190
9019	03-31-89	6.05%	2,401,042		935,396	1,465,646
9020	01-29-93	6.05%	1,781,250		621,250	1,160,000
9021	01-19-94	6.05%	1,808,333		553,693	1,254,640
9022	04-26-95	6.05%	1,705,000		416,028	1,288,972
9023	07-01-98	5.55%	3,714,000		605,299	3,108,701
9026	03-31-02	Various (1)	18,281,000		2,365,450	15,915,550
9027	03-31-02	4.90%	2,878,000		448,225	2,429,775
9028	03-19-04	6.75%	9,270,000		806,014	8,463,986
9029	12-31-03	Various (2)	28,304,131		20,721,389	7,582,742
9030		Various (3)	46,364,000		29,900,297	16,463,703
9031	03-03-08	Various (4)	840,000		200,139	639,861
9033		Various (5)	70,780,000		16,626,263	54,153,737
9034	03-03-08	Various (4)	560,000		140,504	419,496
9035	03-03-08	Various (4)	840,000		200,139	639,861
9036	03-03-08	Various (4)	280,000		72,789	207,211
9037	03-03-08	Various (4)	280,000		72,789	207,211
9038	03-03-08	Various (4)	280,000		72,789	207,211
9039	03-03-08	Various (4)	280,000		72,789	207,211
9040	03-03-08	Various (4)	840,000		201,946	638,054
9041	03-03-08	Various (4)	280,000		72,789	207,211
9042	03-03-08	Various (4)	560,000		140,504	419,496
9043	03-03-08	Various (4)	840,000		200,139	639,861
9044	03-03-08	Various (4)	560,000		136,155	423,845
9045	03-03-08	Various (4)	280,000		72,789	207,211
9046	03-03-08	Various (4)	2,520,000		560,258	1,959,742
9047	03-03-08	Various (4)	280,000		72,789	207,211
9048	03-03-08	Various (4)	560,000		140,504	419,496
9049	03-03-08	Various (4)	280,000		72,789	207,211
9050	03-03-08	Various (4)	280,000		72,789	207,211
9051	03-03-08	Various (4)	840,000		200,140	639,860
* 9052			72,680,000	72,680,000		
Total CFC			\$ 281,874,589	\$ 72,680,000	\$ 83,340,814	\$ 125,853,775

(1) - Interest rates range from 4.60% to 5.30%.

(2) - Interest rates range from 5.20% to 5.65%.

(3) - Interest rates range from 5.55% to 6.70%.

(4) - Interest rates range from 0.00% to 0.40%.

(5) - Interest rates range from 3.20% to 5.80%.

CoBANK Mortgage Notes

192743	05-12-11	1.599%	\$ 3,834,672	\$	\$ 160,969	\$ 3,673,703
192752	05-12-11	2.054%	3,827,249		128,866	3,698,383
192768	05-12-11	3.013%	16,867,300		441,456	16,425,844
192775	05-12-11	3.399%	5,750,952		168,736	5,582,216
192781	05-12-11	3.713%	5,263,250		156,507	5,106,743
200038	10-13-11	2.560%	667,560		11,747	655,813
209122	02-24-12	1.948%	5,441,383		80,321	5,361,062
* 192662	05-10-11		72,680,000	72,680,000		
Total CoBANK			\$ 114,332,366	\$ 72,680,000	\$ 1,148,602	\$ 40,503,764
Total Long-Term Debt			\$ 396,206,955	\$ 145,360,000	\$ 84,489,416	\$ 166,357,539

Net obligation includes \$4,575,415 due CFC and \$1,053,370 due CoBank payable within one year, and classified as current liabilities on the balance sheet.

* \$72,680,000 is available for draw from CFC or Cobank.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 6

ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	June 30,		Increase (Decrease)
	2012	2011	
Administrative and General Salaries	\$ 3,250,396	\$ 3,561,397	\$ (311,001)
Office Supplies and Expense	366,933	458,293	(91,360)
Outside Services Employed	408,711	743,485	(334,774)
Injuries and Damages	130,090	91,181	38,909
Directors' Fees and Mileage	185,787	213,910	(28,123)
Dues Paid Associated Organizations	139,852	168,789	(28,937)
Fort Huachuca Administrative and General	79,174	82,235	(3,061)
Miscellaneous General Expenses	258,408	262,850	(4,442)
Capital Credits	4,766	2,747	2,019
Maintenance of General Property	<u>127,876</u>	<u>11,415</u>	<u>116,461</u>
Total	<u>\$ 4,951,993</u>	<u>\$ 5,596,302</u>	<u>\$ (644,309)</u>

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 7

FIVE YEAR COMPARATIVE DATA

	Years Ended June 30,				
	2012	2011	2010	2009	2008
OPERATING REVENUES					
Residential	\$ 48,632,443	\$ 47,574,044	\$ 48,549,544	\$ 48,814,339	\$ 43,703,106
Irrigation	16,155,643	14,325,677	13,729,469	16,245,092	14,545,467
Commercial and Industrial	33,376,294	33,826,988	35,689,995	39,144,053	33,215,629
Public Buildings and Other Authorities	2,475,688	3,261,710	3,434,936	2,886,435	4,395,643
Power Adjustment (Over) Underbilled	5,154,917	3,517,118	(2,053,143)	(5,899,845)	1,860,413
Rent from Electric Property	756,241	726,930	741,802	703,219	880,106
Other Operating Revenues	1,388,987	1,488,643	1,196,734	1,240,482	901,680
Total Operating Revenues	\$ 107,940,213	\$ 104,721,110	\$ 101,289,337	\$ 103,133,775	\$ 99,502,044
OPERATING EXPENSES					
Purchased Power	\$ 65,559,517	\$ 62,250,900	\$ 60,879,160	\$ 67,663,290	\$ 63,192,101
Transmission	443,236	489,369	519,736	522,760	316,195
Distribution - Operation	9,123,391	8,469,039	8,691,917	8,412,360	8,288,980
Distribution - Maintenance	3,130,133	2,553,020	3,225,107	2,737,996	2,445,527
Customer Accounts	2,913,304	2,804,550	3,360,027	3,769,653	2,886,551
Customer Service and Information	530,085	479,738	521,559	776,674	706,045
Sales Expense	185,274	222,893	349,727	1,084,476	564,923
Administrative and General	4,951,993	5,596,302	4,685,217	3,737,437	3,719,348
Depreciation and Amortization	9,462,769	9,517,947	8,951,322	8,373,955	7,514,978
Taxes	943,564	991,745	1,246,363	1,218,684	1,014,000
Other Interest	36,687	153,419	255,087	294,480	401,766
Other Deductions	310,356	271,386	285,459	210,508	178,518
Total Operating Expenses	\$ 97,590,309	\$ 93,800,308	\$ 92,970,681	\$ 98,802,273	\$ 91,228,932
OPERATING MARGINS - Before Fixed Charges	\$ 10,349,904	\$ 10,920,802	\$ 8,318,656	\$ 4,331,502	\$ 8,273,112
FIXED CHARGES					
Interest on Long-Term Debt	\$ 7,118,083	\$ 7,342,121	\$ 7,300,234	\$ 6,889,939	\$ 6,008,787
OPERATING MARGINS (DEFICIT) - After Fixed Charges	\$ 3,231,821	\$ 3,578,681	\$ 1,018,422	\$ (2,558,437)	\$ 2,264,325
Other Capital Credits	3,604,811	4,093,914	6,454,959	11,238,715	3,118,697
NET OPERATING MARGINS	\$ 6,836,632	\$ 7,672,595	\$ 7,473,381	\$ 8,680,278	\$ 5,383,022
NON-OPERATING MARGINS					
Interest Income	\$ 336,913	\$ 255,671	\$ 296,195	\$ 105,319	\$ 106,058
Other Non-Operating Income (Expense)	(98,848)	213,421	161,819	280,337	166,529
	\$ 238,065	\$ 469,092	\$ 458,014	\$ 385,656	\$ 272,587
NET MARGINS	\$ 7,074,697	\$ 8,141,687	\$ 7,931,395	\$ 9,065,934	\$ 5,655,609
Miscellaneous Statistics					
MWH Sales	852,145	831,469	828,712	811,002	817,004
Times Interest Earned Ratio	1.99	2.11	2.09	2.32	1.94
Debt Service Coverage	2.33	2.06	1.97	2.09	1.78
Equity to Total Assets	29.2	28.5	26.1	24.4	24.3
Equity to Total Capitalization	32.6	32.3	31.4	30.0	30.6

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 8

STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE CALENDAR YEARS 2011 AND 2010
(UNAUDITED)

	December 31,	
	2011	2010
OPERATING REVENUES	\$ 104,856,072	\$ 103,834,258
OPERATING EXPENSES		
Cost of Power	\$ 62,639,414	\$ 61,105,441
Transmission Expense	457,620	496,181
Distribution - Operation	8,620,015	8,617,882
Distribution - Maintenance	2,802,860	3,124,011
Consumer Accounts	2,896,009	2,991,385
Customer Service, Information, and Sales	598,851	694,000
Administrative and General	5,111,996	5,550,189
Depreciation and Amortization	9,490,440	9,473,336
Taxes	954,343	1,143,577
Other Deductions	377,428	482,783
Total Operating Expenses	\$ 93,948,976	\$ 93,678,785
OPERATING MARGINS - Before Fixed Charges	\$ 10,907,096	\$ 10,155,473
FIXED CHARGES		
Interest on Long-Term Debt	7,203,410	7,307,047
OPERATING MARGINS - After Fixed Charges	\$ 3,703,686	\$ 2,848,426
Capital Credits	3,364,882	3,998,195
Net Operating Margins	\$ 7,068,568	\$ 6,846,621
NON-OPERATING MARGINS		
Interest Income	\$ 254,159	\$ 308,464
Other Non-Operating Income	32,338	209,082
Total	\$ 286,497	\$ 517,546
NET MARGINS	\$ 7,355,065	\$ 7,364,167

COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES
CONCERNING AUDITS OF CFC BORROWERS**

Board of Directors
Sulphur Springs Valley Electric Cooperative, Inc.
Willcox, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Sulphur Springs Valley Electric Cooperative, Inc. as of June 30, 2012 and 2011, and the related statements of income and patronage capital and cash flows for the years then ended, and have issued our report thereon dated September 12, 2012.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Sulphur Springs Valley Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

September 12, 2012

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Sulphur Springs Valley Electric Cooperative, Inc.
Willcox, Arizona

We have audited the financial statements of Sulphur Springs Valley Electric Cooperative, Inc. as of and for the years ended June 30, 2012 and 2012, and have issued our report thereon dated September 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Sulphur Springs Valley Electric Cooperative, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sulphur Springs Valley Electric Cooperative, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A *deficiency in internal controls* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sulphur Springs Valley Electric Cooperative, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, management, Rural Utilities Services, supplemental lenders, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

September 12, 2012

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditors' Report

Board of Directors
Sulphur Springs Valley Electric Cooperative, Inc.
Willcox, Arizona

Compliance

We have audited Sulphur Springs Valley Electric Cooperative Inc.'s compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Sulphur Springs Valley Electric Cooperative Inc.'s major federal programs for the year ended June 30, 2012. Sulphur Springs Valley Electric Cooperative Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Sulphur Springs Valley Electric Cooperative, Inc.'s. Our responsibility is to express an opinion on Sulphur Springs Valley Electric Cooperative, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sulphur Springs Valley Electric Cooperative, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sulphur Springs Valley Electric Cooperative, Inc.'s compliance with those requirements.

In our opinion, Sulphur Springs Valley Electric Cooperative, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Sulphur Springs Valley Electric Cooperative, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Sulphur Springs Valley Electric Cooperative, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sulphur Springs Valley Electric Cooperative, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Director's, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

September 12, 2012

FEDERAL FINANCIAL ASSISTANCE SECTION

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

A. Section I - Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting

Material weakness(es) identified?

_____ yes x no

Significant deficiencies identified that are
not considered to be material weaknesses?

_____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes x no

Significant deficiency identified that are
not considered to be material weaknesses?

_____ yes x none reported

Type of auditor's report issued on compliance for major
programs.

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of OMB
Circular A-133?

_____ yes x no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

81.122

ARRA - Electric Delivery and Energy Reliability, Research, Development, and Analysis Grant

Dollar threshold used to distinguish between
type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ yes x no

B. Section II - Findings Related to the Financial Statements

The audit disclosed no findings required to be reported

C. Section III - Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

**SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Prior Year's Findings/Noncompliance

No findings noted in the prior year

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures and Indirect Cost</u>	<u>Passed Through to Subrecipient</u>
<u>Department of Energy</u>			
<u>Passed Through Southwest Transmission Cooperative, Inc.</u>			
Electric Delivery and Energy Reliability, Research, Development, and Analysis - ARRA Funds	81.122	\$ <u>4,005,725</u>	\$ <u>0</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sulphur Springs Valley Electric Cooperative, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

- (1) Southwest Transmission Cooperative, Inc. pays the Cooperative a 50% reimbursement for all submitted costs on the SF 270's. Actual federal cash receipts during the year ended June 30, 2012 were \$3,713,285.

ATTACHMENT 4

**PUBLIC NOTICE
OF
THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE,
INC., FOR AN ORDER FOR AN ORDER APPROVING ITS COMPREHENSIVE
CREDIT MANAGEMENT PROGRAM AND SUPERSEDING AND REPLACING
CERTAIN CONDITIONS CONTAINED IN DECISION 72237 PERTAINING TO THE
REFINANCING OF SSVEC'S EXISTING AND AUTHORIZED DEBT
(DOCKET NO. E-01575A-12-____)**

On November 6, 2012, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") filed an application ("Application") with the Arizona Corporation Commission ("Commission") for an order approving its comprehensive credit management program and superseding and replacing certain conditions contained in Decision 72237 pertaining to the refinancing of SSVEC's existing and authorized debt. Pursuant to the Application, SSVEC is seeking authority from the Commission to refinance all or part of its existing debt and authorized debt using commercial paper and long-term bonds. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and at the Applicant's offices located at 350 North Haskell, Willcox, Arizona 85643 and 311 East Wilcox Drive, Sierra Vista, Arizona 85635.

The Commission may grant the Application with or without a hearing. Intervention in this proceeding is permitted to any person entitled by law to intervene or who is directly and substantially affected by the proceeding. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon SSVEC and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to SSVEC.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on or before the 15th day after publication of this notice.